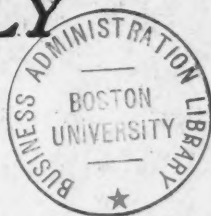


# Public Utilities

*FORTNIGHTLY*



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July 16, 1942

**HOW ABOUT ELECTRIC UTILITY  
STAFF ORGANIZATION?**

*By John H. Bickley*

« »

**The Australian Railway System's  
Rôle in Defense**

*By Arthur C. Selke*

« »

**Should Utility Rates Be "Frozen"?**

*By Frank B. Warren*

« »

**American Transit Moves the Masses**

*By Charles Gordon*

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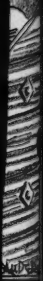
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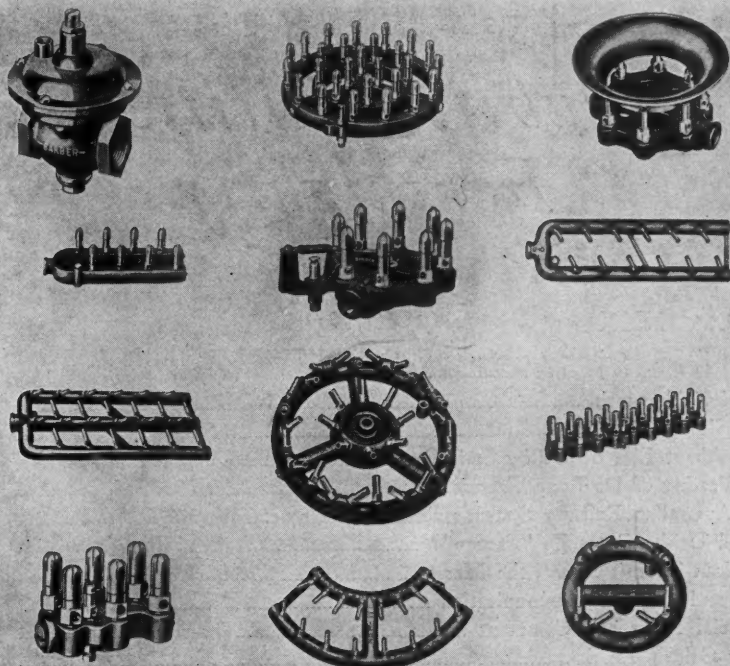
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# Public Utilities Fortnightly



VOLUME XXX

July 16, 1942

NUMBER 2

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**Q** This magazine is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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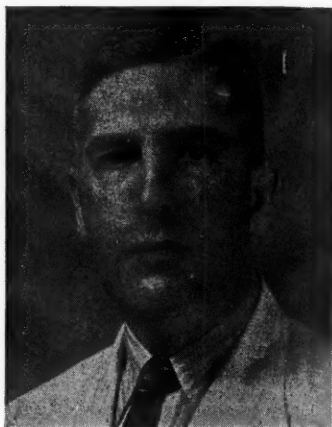


## Pages with the Editors

**G** LANCING through the newspapers late last month, we came across a little item which made us look carefully at it the second time. It had to do with a routine proceeding before the Maine Public Utilities Commission, involving an application for an electric rate increase to offset increased taxes of the Bangor Hydro-Electric Company. What arrested our attention was the fact that Price Administrator Leon Henderson had filed a petition to intervene in the case with the idea of opposing any rate increase.

Of course, we knew about OPA getting into local utility rate cases before. There were the Bell telephone incident in Iowa and a local transit matter in Philadelphia. But the Maine incident made us realize that it is becoming the established policy of OPA to go into utility regulatory proceedings whenever a rate increase is involved.

THIS is somewhat peculiar, because not only does the Price Control Act exempt public utilities from the jurisdiction of the OPA, but Price Administrator Henderson himself, if memory serves us rightly, once told a congressional committee that he had no intention of



T. N. SANDIFER

*The old gray mare may have a comeback before it's over.*

(SEE PAGE 82)

applying price ceilings to utility rates. Of course, there is an obvious distinction between the OPA exercising its own jurisdiction to fix commodity prices and merely appearing as an interested party in a proceeding before a state regulatory body engaged in fixing utility rates. But the situation still needs clarification.

**I**N this issue we have a discussion of whether public utility rates ought to be frozen. It was written by a stout advocate of state commission regulation, FRANK B. WARREN, assistant solicitor for the National Association of Railroad and Utilities Commissioners.

"FREEZING" utility rates implies pegging them at present levels, or as of some given date, such as the March ceiling prices placed upon general commodities by OPA. There has been heard an objection, however, from some quarters that such a proposal, in view of the steady downward trend in utility rates as against the upward trend in general commodity prices during recent years, would result in freezing utility rates at or near their economic bottom as compared with freezing commodity



JOHN H. BICKLEY

*Suggests that utilities might consider some intracompany staff standardization.*

(SEE PAGE 69)

# How

## *Your Water Works Can Help*

# To Win the War

**Y**OU, in charge of Water Works, see men going off to the Army and Navy. You see them streaming to the plants engaged in War Work. And maybe you're wondering what YOU can do to help in YOUR job . . . "what's the Water Works got to do with war production, anyway?"

More than you realize, perhaps! For you can help by preventing waste of materials vitally needed for war production. One method is a program of modern meter conservation which will result in reducing your pumpage . . . and save not only water, but chemicals to treat it and fuel to pump it.

If your town and hundreds of other towns can reduce your pumpage (as did Hickory, N. C.) even 2.2% — and many can do FAR more — you will contribute much to the job ahead of all of us.

What is a Meter Conservation Program? It is a plan of periodic meter testing and repairing — one example of which is quoted here. No matter what water meters you use, your nearest Trident Meter representative will be glad to advise you about such a program, without obligation on your part. Write for Bulletin 597a. Start your Water Works helping to win the war — today!

### ★ ★ ★ ★ HICKORY, N. C., HELPS ★ ★ ★ ★

*and gets increased revenue to boot!*

★ When their meter testing and repair program started, Hickory, N. C., discovered many meters were "dead", (not registering). Within 10 months they saw that definite economies had been effected. The replacement of a 2" Compound meter with one newly repaired and tested, for example, resulted in a 16.7% increase in revenue in that period.

★ Small (domestic) meters, averaging 14 years old (without repairs), cost a fraction over \$2.00 apiece for repairs needed to bring them to 90% (or greater accuracy) at the rate of 1/4 g.p.m. Result—pumping—down 2.2%; revenue—up \$2,539.99, more than paying for the cost of the program.

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(near Toronto)

prices at or near their economic top. Certainly, if utility taxes and operating expenses continue to rise, a more careful examination of this objection would seem to be in order.

Mr. WARREN is a graduate of the San Diego Business College ('14) and an alumnus of the University of Nevada Engineering School. He served with the U. S. Army Air Force during World War I; and following his admission to the Nevada Bar in 1923, he served on the staff of the Nevada Public Service Commission until 1931. Prior to taking his present post early this year, Mr. WARREN was a staff attorney for the ICC and the FCC.



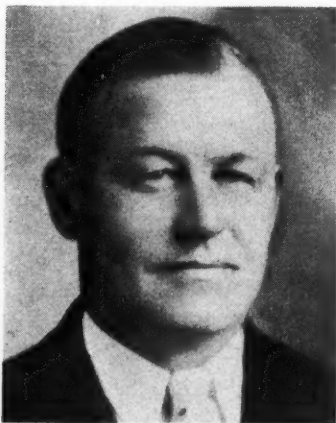
FRANK B. WARREN

*Utility rates are a part of a possible inflationary price spiral pattern.*

(SEE PAGE 94)

ANOTHER former member of the FCC staff is the author of the opening article in this issue, JOHN H. BICKLEY. Mr. BICKLEY will be readily remembered by many of our readers as the chief accountant and moving spirit of the special telephone investigation of the FCC—a post he occupied from April, 1935, to August, 1937. Before that Mr. BICKLEY, a graduate of the University of Pennsylvania ('15), served as a faculty member in charge of business accounting instruction for Lehigh University. He also served on the staffs of the public service commissions of Pennsylvania, Maryland, and Wisconsin, and on the Federal Trade Commission investigation of public utilities. He is now engaged in private practice in Chicago.

ARTHUR C. SELKE, whose timely article on the railroad situation in the "down under" sphere of military influence of General Douglas MacArthur begins on page 89, is professor



ARTHUR C. SELKE

*Australia's railroads keep running under the shadow of the Zero bomber.*

(SEE PAGE 89)

JULY 16, 1942

THE reassuring account of how the American transit industry is taking care of its tremendous war-time responsibility (beginning page 98) comes from the pen of CHARLES GORDON, managing director of the American Transit Association since 1929. Prior to that Mr. GORDON was western editor for *Electric Railway Journal*.

T. N. SANDIFER, author of another article on the transit situation (beginning page 82), is a Washington newspaperman and former White House correspondent.

AMONG the important decisions preprinted from *Public Utilities Reports* in the back of this number, may be found the following:

In a proceeding under § 11(b)(1) of the Holding Company Act relating to integration of public utility systems, the Securities and Exchange Commission considered such matters as the selection of a principal system, additional systems retainable, geographical limitations, and other businesses retainable. (See page 257.)

The next number of this magazine will be out July 30th.

*The Editors*

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## ★ A WARTIME PLEDGE ★ ★ TO OUR PUBLIC UTILITY FRIENDS ★

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In wartime, our selling efforts, like our manufacturing efforts, have only one prime purpose: to make a total contribution to total victory. This purpose our nation-wide organization is brilliantly equipped to fulfill.

For the Remington Rand representative has always put emphasis on education, rather than selling. And today it is his knowledge of business machines and his ability to teach broader use of business systems and methods, that makes him so valuable to public utilities in wartime America.

He knows, and is teaching America, how to make the entire office system more productive. He knows, and is teaching America, how to get more reports, more of the vitally needed reports, from accounting and bookkeeping departments which appear already to be working at full capacity. He knows, and is teaching America, how to extend the useful life of typewriters and other business machines.

The knowledge and advice of these Remington Rand specialists, in business centers from coast to coast, comprise a "Service of Supply" for all public utility offices. And because this service to you, like your service to all America, is indispensable to efficient over-all production, we pledge you our fullest help and co-operation. We urge you to accept this pledge literally . . . to call upon us at every occasion. Remington Rand Inc., Buffalo, New York.

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#### PREPRINTS FROM PUBLIC UTILITIES REPORTS

*Various regulatory rulings by courts and commissions reported in full text, pages 257-320, from 43 PUR(NS)*





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—MONTAIGNE



ANNE O'HARE McCORMICK  
*Member, editorial staff, The New York Times.*

"When a free press goes, free government goes with it."

JOHN B. KENNEDY  
*Radio commentator.*

"It's better to be smacked up by a little regulation than to be slapped down by unbridled inflation."

EDITORIAL STATEMENT  
*Atlanta Constitution.*

"It is impossible for a trucker to build and to load any truck that will be legal in every state in the Union."

EDITORIAL STATEMENT  
*The Wall Street Journal.*

"A country which becomes the arsenal of democracy necessarily becomes to a considerable extent the treasury of democracy."

BENJAMIN H. NAMM  
*National chairman, Retail Advisory Committee to the U. S. Treasury.*

"Let all of us who are in trade and industry determine that we shall first unite and then plan, then practice, and then preach."

EDITORIAL STATEMENT  
*Railway Age.*

"... the possibilities of shippers and the public helping increase the output of rail transportation are as yet nowhere near exhausted!"

ESTES KEFAUVER  
*U. S. Representative from Tennessee.*

"... the Tennessee Valley Authority has contributed more to the war production of our nation than any other agency of the government."

EDITORIAL STATEMENT  
*Industrial News Review.*

"Federal acquisition of existing utility systems would not of itself create a single additional kilowatt of electric power for war industry or any other purpose."

J. FRENCH ROBINSON  
*President, East Ohio Gas Company.*

"The lesson which our customers must learn and which we must teach them and which we hope they will never forget is, briefly, this: *'It Is Patriotic to Use Gas Wisely.'*"

STATEMENT  
*The National City Bank of New York.*

"Sound tax policy must regard the corporations as agencies primarily for the production of goods and services rather than as agencies for raising government revenue."

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*U. S. Representative from  
California.*

"I hope the time will never come when this House [of Representatives], calmly considering a proposed piece of legislation, will refuse to do the right thing simply because it costs something. . ."

KENNETH McKELLAR  
*U. S. Senator from  
Tennessee.*

"Of all the money spent on the Tennessee Valley Authority dams, I have secured more than 90 per cent of it, first from the Appropriations Committee of the Senate and then from the Congress."

JOSEPH B. EASTMAN  
*Director, Office of Defense Transportation.*

"... the railroads certainly are in need of no such protection [from competition] now. On the contrary, they need, or soon will need, all the help from competing agencies of transportation that they can get."

EDITORIAL STATEMENT  
*The American City.*

"Whatever dependence may again be placed in the rubber supply of Asia, or even of nearer South America, the memory of this tire shortage will persist a long time. The tire-less virtue of the street car will also be remembered."

S. B. WILLIAMS  
*Editor, Electrical World.*

"If power has to be rationed because there just aren't enough kilowatts to take care of expanding war load the public will take it good naturedly; but if there has to be rationing because a company did not lay in enough coal when it could the public won't take it meekly."

WILLIAM C. CROW  
*Chief, transportation and warehousing branch, Agricultural Marketing Administration, Department of Agriculture.*

"Let us reexamine our laws and regulations, change those which interfere with the task we have to do, and enact others to break up practices of groups which would sabotage our war effort for their own immediate gain. We have but one task to perform, and that is to win the war. Nothing must be allowed to stop us."

GEORGE S. BENSON  
*President, Harding College.*

"We are not successfully controlling inflation, and the end of June, 1943, will not likely carry us farther than the middle of the war. Accordingly, there is every indication we will have a debt of at least \$250,000,000,000 by close of the war or a national debt equal to twice the assessed valuation of all real estate in the United States."

J. MONROE JOHNSON  
*Member, Interstate Commerce Commission.*

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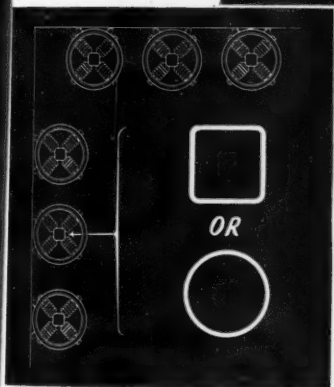
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*Note neat, streamline appearance—easily accessible to inspection and adjustment.*

*No superstructure necessary—easily mounted to wall or ceiling. Note air gap between phases. Buses can be round or square as shown below.*



➤ All stresses taken by mounting frame with insulators in compression loading under all conditions.

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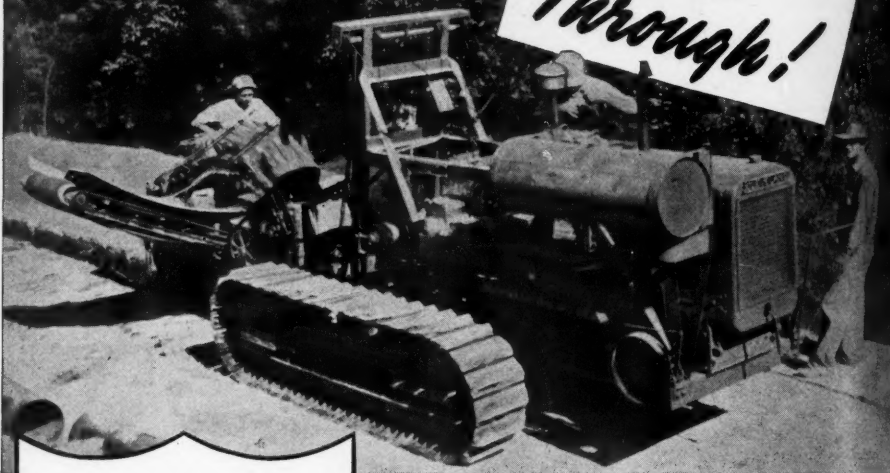
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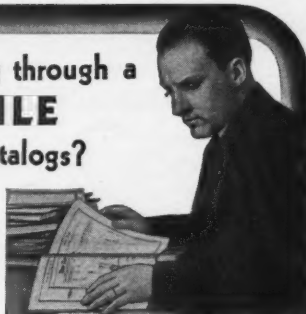
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DAVEY TREE EXPERT CO. KENT, OHIO

**DAVEY TREE SERVICE**

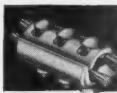
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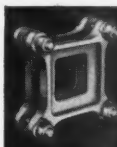
in the **COMPLETE line**

If you have a Penn-Union Catalog, you can instantly find practically every good type of conductor fitting. These few can only suggest the variety:



Universal Clamps to take a large range of conductor sizes; with 1, 2, 3, 4 or more bolts.

L-M Elbows, with compression units giving a dependable grip on both conductors. Also Straight Connectors and Tees with same contact units.



Bus Bar Clamps for installation without drilling bus. Single and multiple. Also bus supports—various types.

Clamp Type Straight Connectors and Reducers, Elbows, Tees, Terminals, Stud Connectors, etc.



Jack-Knife connectors for simple and easy disconnection of motor leads, etc. Spring action—self locking.

Vi-Tite Terminals for quick installation and easy taping. Also sleeve type terminals, screw type, shrink fit, etc. etc.



Splicing Sleeves, Figure 8 and Oval, seamless tubing—also split tinned sleeves. High conductivity copper; close dimensions.

**Preferred** by the largest utilities and electrical manufacturers—because they have found that "Penn-Union" on a fitting is their best guarantee of Dependability. Write for Catalog.

**PENN-UNION ELECTRIC CORPORATION**  
 ERIE, PA.

Sold by Leading Jobbers

**PENN-UNION**  
 CONDUCTOR FITTINGS

# Designed for ~~war~~ wear

WHEN the War Production Board's restriction order on the manufacture of bronze meters was put into effect, the Pittsburgh-National organization had anticipated this limitation by a good many months. Therefore, when the order came through, we were prepared and were able to produce immediately the Empire Victory and the Pittsburgh Ironside—meters designed not only for war but for wear. Both have fully rust-proofed cast iron outer cases; both are fitted with the Pittsburgh-National developed molded glass register box; both conserve over 70% of the bronze normally used in

the construction of meters of this size.

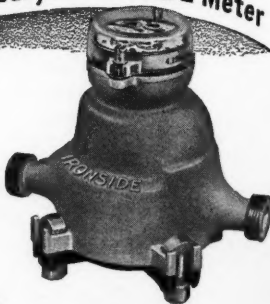
The Empire Victory Meter employs the time-tested oscillating piston principle of measurement, using the famous Empire balanced piston. The Pittsburgh Ironside Meter is of the widely used disc type with inner-working mechanism proven in thousands of Pittsburgh Arctic and Tropic Meters. Both are accurate measuring instruments, each possessing its own individual characteristics. Together they provide the necessary types to handle practically every domestic meter requirement or preference of water works men.

The Empire VICTORY Meter



A fully protected iron case oscillating piston meter

The Pittsburgh IRONSIDE Meter



A fully protected iron case rotating disc meter

#### THE NEW MOLDED GLASS REGISTER BOX

A single piece, strong, molded glass unit which fits snugly over the register and is retained against a fibre gasket. Serves as both register box and lid; protects register against dust and moisture; will withstand considerable abuse.



## PITTSBURGH-NATIONAL METERS

THE MOST COMPLETE LINE OF WATER METERS IN THE WORLD

PITTSBURGH EQUITABLE METER COMPANY  
 NEW YORK OAKLAND MERCER NORDSTROM VALVE COMPANY KANSAS CITY SEATTLE  
 BIRMINGHAM TULSA Main Offices: Pittsburgh, Pa. PHILADELPHIA HOUSTON  
 DES MOINES CHICAGO NATIONAL METER DIVISION, Brooklyn, N. Y. SAN FRANCISCO COLUMBIA  
 MEMPHIS BOSTON LOS ANGELES BUFFALO

# Soldier of War

## on the home front

is a mechanic . . . one of the thousands of  
 fliers of war on the home front who are fight-  
 ing to "keep 'em rolling." He knows how much  
 depends upon him . . . and he's doing a job to  
 be proud of!

Right now, and for as many months and years  
 as the war lasts, his job is to keep existing  
 vehicles in front line service through good  
 maintenance. We of Timken are ready and  
 anxious to help him in every way we can . . .  
 We in turn can help win the battle of trans-  
 portation that will have such a decided effect on  
 the outcome of battles fought on the fighting  
 fronts.

Write us today for the many A. M. (Axle  
 Maintenance) aids we have prepared to help  
 him win his fight. They are yours — and his —  
 simply for the asking.

## TIMKEN AXLES

TIMKEN-DETROIT AXLE CO., DETROIT, MICH.  
 CONSOLIDATED AXLE DIVISION, OSHKOSH, WISC.

*Timken's Job: To Axe the Axis with Axles*

A new Axle Inspection wall chart  
 is the latest Timken A. M. aid.  
 Be sure to specify it when writing.





### *New Target for Industry:*

More Dollars per Man per Month in the  
**PAY-ROLL WAR SAVINGS PLAN**



**TO WIN THIS WAR,** more and more billions are needed and needed fast—AT LEAST A BILLION DOLLARS A MONTH IN WAR BOND SALES ALONE!

This means a *minimum* of 10 percent of the gross pay roll invested in War Bonds in every plant, office, firm, and factory in the land.

Best and quickest way to raise this money—AND at the same time to “brake” inflation—is by stepping up the Pay-Roll War Savings Plan, having every company offer every worker the chance to buy **MORE BONDS.**

If your firm *has* already installed the Plan, *now is the time—*

1. To secure wider employee participation.
2. To encourage employees to increase the amount of their allotments for Bonds, to an average of at least 10 percent of earnings.

If your firm *has not* already installed the Pay-Roll War Savings Plan, *now is the time to do so.* For full details, plus samples of result-getting literature and promotional helps, write, wire, or phone: War Savings Staff, Section E, Treasury Department, 709 Twelfth Street NW., Washington, D. C.



## **U. S. War Savings Bonds**

This space is a contribution to America's all-out war program by

**PUBLIC UTILITIES FORTNIGHTLY**



# MISSIONARIES OF "MEASURED HEAT"



Many valuable facts are being offered these days on the vitamin content of foods. But have you noticed how little the public is told about how to cook these foods so that these vitamins may be preserved?

Robertshaw has seized this golden opportunity to perform a much-needed public service—and also promote a market for better cooking equipment when peace is here again.

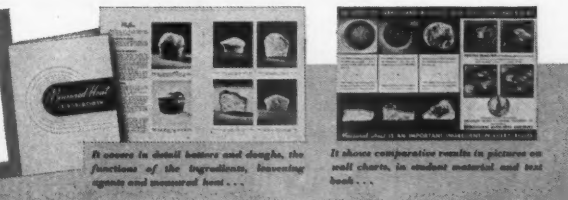
Through its Educational Program, Robertshaw is teaching the gospel of "Measured Heat" and the part heat plays in proper cooking. The Robertshaw "Measured Heat" Program is used by Home Economics teachers in grade and high schools. It is also widely used by County Home Demonstration Agents, Home Economics supervisors, and at Universities where home economics teachers study. These are the people in whose hands the future of cooking lies.



## ROBERTSHAW THERMOSTAT COMPANY

YOUNGWOOD, PA.

**THE ROBERTSHAW  
MEASURED HEAT PROGRAM**  
explains the importance  
of optimum temperature  
in baking and roasting—



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## 150,000 HP Francis Turbine for Grand Coulee Project

(SHOP HYDROSTATIC TEST—230 LB. PER SQ. IN.)

### HYDRAULIC TURBINES

FRANCIS AND HIGH SPEED  
RUNNERS

BUTTERFLY VALVES

POWER OPERATED RACK RAKES

GATES AND GATE HOISTS

ELECTRICALLY WELDED RACKS

**Newport News Shipbuilding and Dry Dock Company**

*(Hydraulic Turbine Division)*

**Newport News, Virginia**

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# An Opportunity

Our government has given us an opportunity to make the soundest investment in the world, through the purchase of United States War Savings Bonds and Stamps, which will furnish the money to back up the armed forces.

This investment is an obligation as well as an opportunity to actively participate in the Victory program.

Let us all invest for Victory.



U.S. War Savings Bonds and Stamps  
are on sale in Post Offices, Stores,  
Business and Financial Institutions,  
Schools, Theatres, and IBM Offices  
throughout the Country

INTERNATIONAL BUSINESS MACHINES CORPORATION

# Facts You Can Use to Cut Distribution Costs

July 10



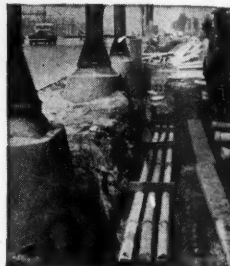
## TRANSITE DUCTS ARE STRONG!

**Y**OU save all the expense of "concreting-in" when you use Johns-Manville Transite Conduit. So strong it needs no protective casing of any kind, this durable duct holds its true form under sustained earth loads and traffic pressure. Warping is practically eliminated.

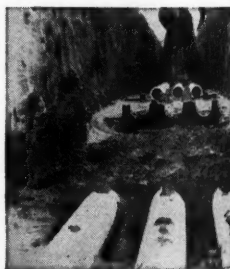
And you spend less money on maintenance, for Transite is an asbestos-cement product . . . completely non-metallic and inorganic. It can't burn, rot or cause dangerous fumes or gases. It offers exceptional resistance to weather and corrosion. Yet installed costs are low, for Transite's long lengths, light weight and smooth bore make work fast and economical.

For complete details, write for brochure DS-410. Johns-Manville, 22 East 40th Street, New York, N. Y.

**NO CONCRETE CASING** is needed when you install J-M Transite Conduit. It does not warp...holds its strength and true form under heavy earth loads and traffic stress.



**MADE OF ASBESTOS AND CEMENT** Transite Conduit cannot rust or rot...offers exceptional resistance to all forms of corrosion.



**TRANSITE DUCTS** are light in weight, easy to assemble. The smooth bore stays smooth in service...permits easy, rapid cable pulls at any time.

**FOR  
EFFICIENT,  
LOW-COST  
SERVICE,  
SPECIFY...**

## **Johns-Manville TRANSITE DUCTS**

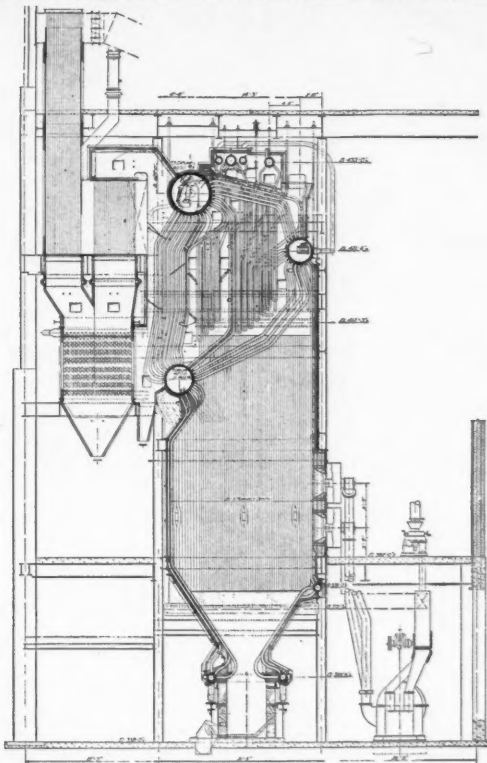
**TRANSITE CONDUIT**... For use underground without a concrete envelope and for exposed locations.

**TRANSITE KORDUCT**... For installation in concrete. Thinner walled, lower priced, but otherwise identical with Transite Conduit.



# RILEY STEAM GENERATING UNIT

ANOTHER RILEY UNIT  
for  
COMMONWEALTH & SOUTHERN CORPORATION



SOUTHERN INDIANA GAS & ELECTRIC CO., EVANSVILLE, IND.

Commonwealth & Southern Corporation

225,000 lbs. steam/hour, 900 lbs. design pressure 900° F steam temp.

87.5% Efficiency.

Riley Boiler, Superheater, Steam Temperature Control, Economizer,  
Air Heater, Water Cooled Furnace, Steel Clad Insulated Setting.  
Fired by Riley Pulverizers & Burners.

## RILEY STOKER CORPORATION

WORCESTER, MASS.

BOSTON NEW YORK PHILADELPHIA PITTSBURGH BUFFALO CLEVELAND DETROIT SEATTLE  
ST. LOUIS CINCINNATI HOUSTON CHICAGO ST. PAUL KANSAS CITY LOS ANGELES ATLANTA

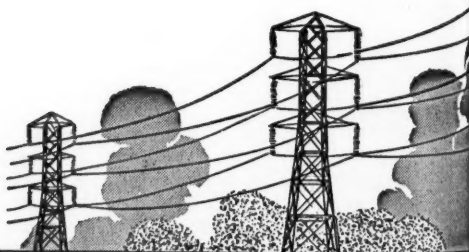
### COMPLETE STEAM GENERATING UNITS

BOILERS - SUPERHEATERS - AIR HEATERS - ECONOMIZERS - WATER-COOLED FURNACES  
PULVERIZERS - BURNERS - MECHANICAL STOKERS - STEEL-CLAD INSULATED SETTINGS

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Transmission line construction costs can be materially reduced and completion expedited by using  
*Hoosier Crews*



**HOOSIER ENGINEERING COMPANY**

CHICAGO

46 SO. 5TH ST., COLUMBUS, OHIO

NEW YORK

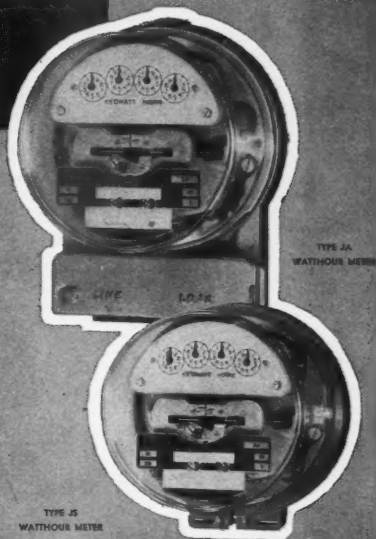
**ERECTORS OF TRANSMISSION LINES**

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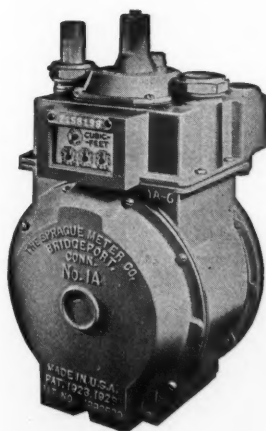
## Faith IN THE Future OF MODERN METERING

Faith in the future, and the cooperation of the electric utility industry with the watthour meter manufacturers, has kept the design and development of the modern watthour meter well ahead of metering requirements. Thanks to this faith and cooperative spirit, the meters built today are fully capable of meeting road conditions for some time to come. When normal times are once more restored, as they are sure to be, watthour meters will again play their important part in system modernization.



**SANGAMO ELECTRIC COMPANY**  
SPRINGFIELD - ILLINOIS

## SPRAGUE COMBINATION METER-REGULATOR



LATEST ACHIEVEMENT  
IN  
GAS MEASUREMENT AND  
CONTROL

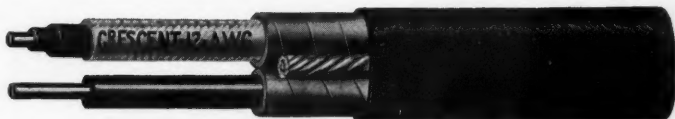
**For Manufactured,  
Natural and Butane Service**

Write for bulletin.

**THE SPRAGUE METER CO.**  
Bridgeport, Conn.

VARNISHED CAMBRIC • RUBBER POWER CABLES • BUILDING WIRE • RADIO

# CRESCENT



# WARFLEX

## A NEW Product! Uses NO Rubber!

This new, factory-fabricated cable has been developed in response to the need for a wiring method that eliminates the use of rubber. WARFLEX is especially suited for Cantonments and War housing.

Send for Further Information and Prices.

### A Partial List of CRESCENT Products

Building Wires & Cables  
Rubber Power Cables  
Varnished Cambric Cables  
Parkway Cable  
Signal & Control Cable  
ABC Armored Cable

Synthol Synthetic Insulated Wires  
CRESFLEX Non-metallic Sheathed Cables  
Bare and Weatherproof Wires  
Portable Cords and Cables  
Flexible Steel Conduit  
All other Standard Wires & Cables

CRESCENT INSULATED WIRE & CABLE CO.

## CRESCENT WIRE and CABLE

Factory: TRENTON, N. J.—Stocks in Principal Cities

CRESCENT ENDURITE SUPER-AGING INSULATION • WEATHER-PROOF WIRE

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CRESFLEX NON-METALLIC SHEATHED CABLE • SERVICE ENTRANCE CABLE • MAGNET WIRE • BARE WIRE

WIRES • SIGNAL CABLE • FLEXIBLE CORDS • LEAD-ENCASED AND PARKWAY CABLES • ARMORED CABLE



## Exide BATTERIES



## IF BY LAND

"ONE if by land; two if by sea." It was an elementary signal system that flashed the news to Paul Revere and started him on his historic ride from Charlestown to Lexington . . . and placed him among America's immortals.

Such a system wouldn't be very efficient today—not with the telephone and the other modern methods of communication at our command.

Exide is proud of the part it is able to play in promoting the efficiency, not only of America's communications systems, but its other utilities and private industrial establishments as well. For Exide Batteries in public and private telephone exchanges, in generating stations, and in countless other installations, are rendering control and protective services that help preclude the possibility of operating failure.

### THE ELECTRIC STORAGE BATTERY CO.

*The World's Largest Manufacturers of Storage Batteries  
for Every Purpose*

PHILADELPHIA

Exide Batteries of Canada, Limited, Toronto



# Let your Waste Basket

show where you  
can **SAVE!**

You wouldn't deliberately throw 700 sheets of carbon paper into the waste basket, would you? Yet, that's exactly what you do when you write 175 sets of average five-part forms interleaved with one-time carbons! That's unnecessary waste because the same number of forms could be written with only 4 sheets of carbon if you equip your typewriters with Egly

## **SPEED-FEED**

But more than that—the Speed-Feed makes all the time of the operator productive and steps up the daily output of typed forms 50% and more! Don't lose any time investigating the many advantages of the Egly Speed-Feed. Consult classified telephone directory for name of local Egly sales agent or write Dayton. Demonstrations arranged without cost or obligation. Literature on request. Address Dept. F-716.



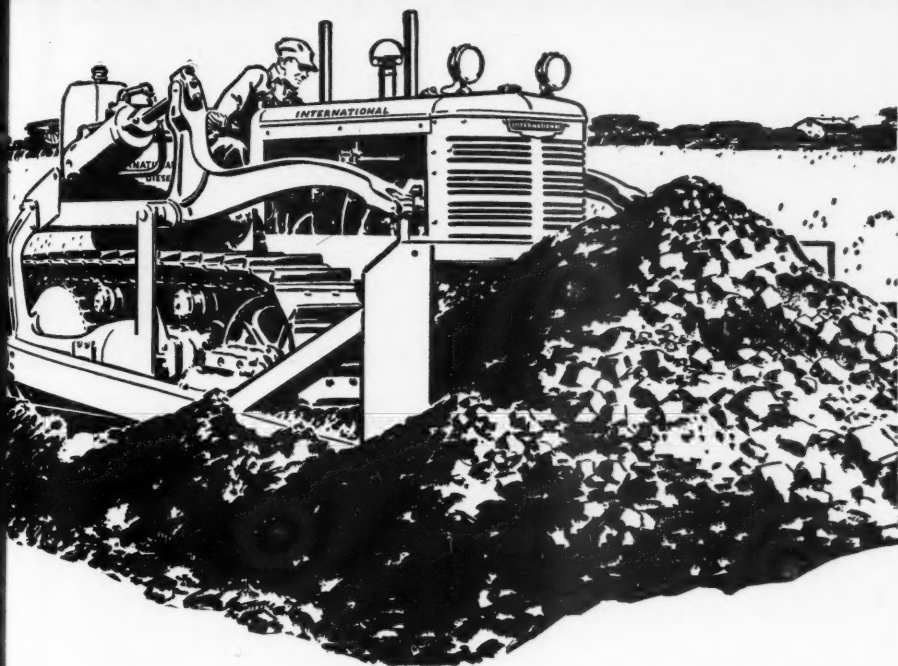
## **The EGRY REGISTER Company** **Dayton, Ohio**

**SALES AGENCIES IN ALL PRINCIPAL CITIES**

The Egly Register Co. (Canada) Ltd., King and Dufferin Streets, Toronto, Ontario, Canada

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# "KNOW-HOW" — *that's the secret!*



WHEN WE talk about International Industrial Power dealer "know-how," we mean the dealer's broad knowledge of construction methods and equipment and his application of that knowledge to your particular problems.

"Know-how" means recommending the right sizes and types of tractors and engines for your specific jobs. It means a knowledge of allied equipment and how to coordinate that equipment most efficiently with International TracTracTors, Wheel Tractors, and Power Units.

The dealer's "know-how" has its foundation in International Harvester research, engineering, and manufacturing — a founda-

tion on which he has built, with his own experience, a background of practical power information. He can give you sound, money-saving ideas on the best equipment to use, the best way to cut operating costs, the best way to get jobs done, *the best way to get maximum output from your equipment* in these times when every minute and every machine counts.

Add his knowledge and experience to your own. Then you will have a combination that will help you get the most out of your equipment . . . and help WIN THE WAR!



**INTERNATIONAL HARVESTER COMPANY**  
180 North Michigan Avenue Chicago, Illinois

## INTERNATIONAL HARVESTER

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*It's* **ELLIOTT** *repeatedly*



An Elliott 2000-hp. 3600-r.p.m. squirrel-cage induction motor driving a high-pressure boiler-feed pump in a recent central station installation.

## **-in large two-pole motors for utility service**

Important public utility plants are showing a preference for Elliott motors for driving the large high-pressure boiler-feed pumps on modern boiler installations. The list of Elliott large two-pole induction motors which have been furnished to utility stations within the past couple of years is impressive.

Central station operators have found that in high-speed motors Elliott engineers really have something on the ball. Of course, this is due to extended experience in this field. Elliott engineers started developing this type of motor more than 25 years ago, were successful then, and are even more so today. All of good experience can be packed into a quarter of a century and you get the benefit of that experience when you specify Elliott motors for your high-speed drives.

Since Elliott Company does not build small motors, it has concentrated on the larger more special types.

Write for the bulletin for details on these motors.

### **ELLIOTT COMPANY**

Electric Power Dept., RIDGWAY, PA.  
DISTRICT OFFICES IN PRINCIPAL CITIES



L-730

# **ELLIOTT** **MOTORS**

*For important drives*







# Utilities Almanack

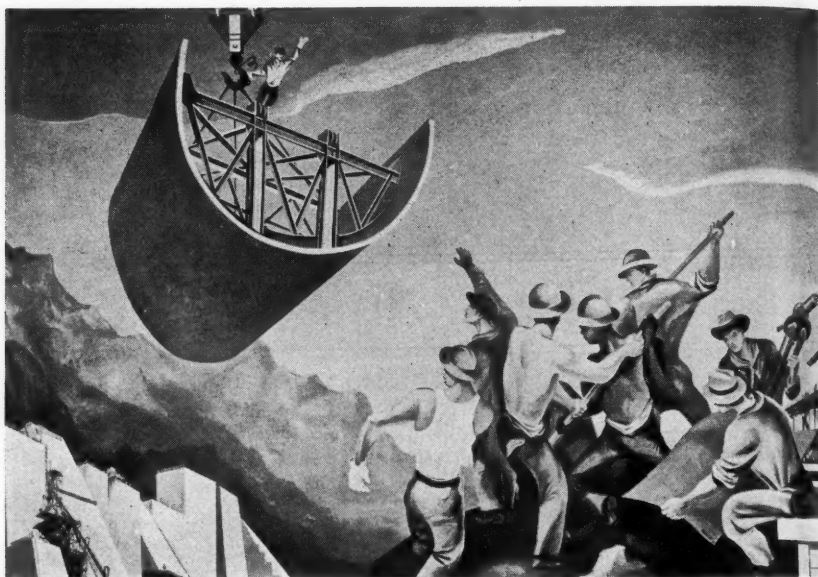
*Due to war-time travel restrictions, conventions listed are subject to cancellation.*



JULY



16	T <sup>h</sup>	¶ League of Iowa Municipalities will hold meeting, Des Moines, Iowa, Aug. 17-19, 1942.
17	F	¶ American Bar Association will hold meeting, Detroit, Mich., Aug. 24-27, 1942.
18	S <sup>a</sup>	¶ State Municipal League of Utah will hold convention, Cedar City, Utah, Sept. 3-5, 1942.
19	S	¶ Governmental Research Association will hold session, Princeton, N. J., Sept. 7-9, 1942.
20	M	¶ American Transit Association will hold annual business meeting, Chicago, Ill., Sept. 9-11, 1942.
21	T <sup>u</sup>	¶ American Water Works Association, Michigan Section, will convene, Traverse City, Mich., Sept. 9-11, 1942. 
22	W	¶ Michigan Independent Telephone Association opens meeting, Lansing, Mich., 1942. ¶ American Society of Civil Engineers convenes, Minneapolis, Minn., 1942.
23	T <sup>h</sup>	¶ Kentucky Independent Telephone Association will hold convention, Ashland, Ky., Sept. 15, 16, 1942.
24	F	¶ New England Water Works Association will convene, Poland Spring, Me., Sept. 15-18, 1942.
25	S <sup>a</sup>	¶ Illuminating Engineering Society will convene, St. Louis, Mo., Sept. 21, 22, 1942.
26	S	¶ Kentucky Municipal League will hold meeting, Mammoth Cave, Ky., Sept. 23-25, 1942.
27	M	¶ Pacific Coast Gas Association will hold meeting, San Francisco, Cal., Sept. 28, 1942. 
28	T <sup>u</sup>	¶ New England Transit Club will hold meeting, Boston, Mass., Oct. 1, 1942.
29	W	¶ United States Independent Telephone Association will convene for session, Chicago, Ill., Oct. 13, 14, 1942.



*Courtesy, Section of Fine Arts, Public Buildings Administration, Federal Works Agency*

## Dam Building

*Central panel of a mural by William Gropper in the new  
Department of the Interior building,  
Washington, D. C.*

Vol. X

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# Public Utilities

FORTNIGHTLY

VOL. XXX; No. 2



JULY 16, 1942

## How About Electric Utility Staff Organization?

*An analysis for some existing set-ups with reference to soundness and efficiency. The time has arrived, in the opinion of the author, for management to dismiss any ideas that the structure of the staff organization is of a confidential nature.*

By JOHN H. BICKLEY

THE vast and unprecedented war effort by the United States is superimposing upon peace-time demands a still more urgent and exacting need for highest efficiency in productive enterprise. Business objectives, policies, forms of organization, and operating practices and methods must be scrutinized to the end that waste, lost motion, duplication of effort, lack of coordination, and every other condition that hinders maximum output at justifiable cost may be eliminated. The best standards of organization and operation must be known and accepted

by all types of business—noncompetitive as well as competitive.

Even in the absence of abnormal demands upon business institutions, forces have been at work to create new needs and constant review of policies and practices. Business is growing in size and complexity. Ownership has become widely scattered. As this occurs a gulf between ownership and management is created, which is not wholly bridged by boards of directors. Management thereby gains in power. At the same time an adequate exercise of the rights and responsibilities of owner-

## PUBLIC UTILITIES FORTNIGHTLY

ship becomes more complicated and difficult. Ways must therefore be found to unite the interests of ownership and management and to strengthen their reciprocal rights and duties. To accomplish this, new methods and instrumentalities must be employed to enable owners and others to form sound judgment concerning the quality of management. The most effective means will be more and better information on business policies, practices, operations, and results.

At present the most common form of information with respect to business is the annual report to stockholders, containing a review, often brief, of the principal transactions and events of the year, the auditor's certificate, and financial and income statements. But new types of information must be given public circulation. Among these must be the facts about staff, as well as financial, organization, and administration.

**T**HAT the form of staff organization is an important element in business management is axiomatic among progressive industrial leaders. Effective organization of personnel is recognized as one of the fundamentals of adequate administrative control and efficient operation. Competitive business is engaged constantly in efforts to improve its structure. It is known that an organization, to function smoothly, cannot "grow up like Topsy." Careful planning is essential. The struggle for existence demands this. Generally, the thought and labor devoted to improvement are about in direct proportion to the kind, degree, and effects of competition. The stronger such forces and the more disastrous the failure to meet

them, the greater is the urge to discover and adopt the best form of organization.

One of the oldest of planned organized activities, the military establishment, long ago realized the importance of sound organization. Military history and recent world events attest that valiant armies have suffered defeat through faulty organization and, conversely, that men no braver have conquered because they were better organized.

While competition has been an impellent toward the most effective form of staff organization in many enterprises, others have sought the same end, whatever the cause. In some instances, the size of the business and the difficulties of supervision may have provided the incentive. In a business employing a large capital investment and many people operating over an extensive area, the administrative task would be overwhelming and control would be lost if the structure of the organization were not designed to accomplish the purposes of the business with least friction.

**U**NFORTUNATELY, other enterprises, perhaps denied the stimulating effects of competition and having found no substitute for it, although having the same pressing need for positive control if they are to be economically operated, do not in many instances present convincing evidence of planned organization. Their functions may be identical. They may use the same or similar facilities and operate under similar conditions. But uniformity in organization structure is not discernible—not even among companies in the same family. Among companies in dif-

## HOW ABOUT ELECTRIC UTILITY STAFF ORGANIZATION?

ferent systems, a pattern is wholly lacking. Yet where functions are the same, where conditions are similar, the proposition that one type of organization structure may be more advantageous than another is a reasonable one.

The attributes of sound organization—balance, stability, flexibility, capacity for growth, and adjustment to objectives—are frequently wanting. A common cause of this condition is the building of organizations around individuals rather than the fitting of individuals into organizations. Aggressive personalities are permitted to expand their spheres of influence by absorbing a great variety of duties or by overemphasizing their work. This may lead to overlapping of functions and conflicts in authority. Fixed responsibility may be jeopardized. In any event, personal considerations of this nature should have no influence on organization structure, since it may be assumed that when activities are defined qualified persons can be found for jobs.

It is not implied that a business with an unsystematic organization will invariably suffer from higher costs than one which is better organized. More favorable opportunities, superiority in the quality of men and machines, and other conditions may, of course, counteract to some extent an inept system.

But this begs the question and it may be concluded without equivocation that operations within a poorly planned structure will be less efficient and economical than when the organization is best designed to accomplish its purposes.

As a key to the study of staff structures, one turns to an organization chart, just as he resorts to the balance sheet and the income statement of a business for an understanding of financial condition and operating results. But the former kind of information is not readily available. The time has not yet arrived when investors and others having an interest in an institution are told about the structure of the organization to which funds, often vast in amount, have been committed, and which is charged with the duty of producing goods or services. In fact, it is doubtful whether directors in most cases are adequately advised on this subject. The investing and consuming public is advised today more accurately and informatively than ever as to the use of capital investment and what becomes of the proceeds of a business, but how the staff is organized to meet objectives is still generally unknown. Management is seldom challenged to justify the way in which in-



**Q** "EFFECTIVE organization of personnel is recognized as one of the fundamentals of adequate administrative control and efficient operation. Competitive business is engaged constantly in efforts to improve its structure. It is known that an organization, to function smoothly, cannot 'grow up like Topsy.' Careful planning is essential. The struggle for existence demands this. Generally, the thought and labor devoted to improvement are about in direct proportion to the kind, degree, and effects of competition."

## PUBLIC UTILITIES FORTNIGHTLY

dividuals and groups of executives and employees are united to perform their duties.<sup>1</sup>

A few corporations regularly send organization charts to their stockholders. But such instances are rare. Indeed in many companies staff charts of any kind are not available. Furthermore, the organization charts that are prepared are sometimes poorly designed, if not inaccurate. Although by no means conclusive, this lack of essential information and the involved and confused state of some charts may suggest that systematic organization does not exist, except by chance. If, in a large institution employing numerous people, accurate and simple organization charts are not prepared with necessary frequency, management and directors will be inadequately informed concerning the staff. The problem of effective administration will be aggravated, at least. Of course, a ship might sail without a navigation chart and the voyage might prove safe, but a prudent captain would prefer a more enlightened course. Likewise a business might function economically without a chart of the organization that carries it on its way, but the prudent manager will want to be mindful constantly of the organization of his personnel.

The construction of an organization chart is important in itself. It should be so drawn as to show clearly the levels and lines of authority and responsi-

bility and the relationship of individuals and of groups of executives and employees, as well as their functions. It should extend to every officer, executive, supervisor, and employee, if it is to fulfill its purpose as an instrument of administrative control.

**S**PECIFICALLY, our concern is with the electric utility business in which there is a well-established public interest. It is a large yet fairly homogeneous industry. It has grown rapidly and employs a large amount of capital. The problems of organization, as well as all other problems relating to staff, are of primary importance, for payrolls represent a substantial portion of costs—in fact, are the largest item of expense.

An electric utility staff organization, like any other, must be designed in harmony with functions and conditions. The organic functions of all companies in this industry are the same. Differences in conditions, in so far as they bear upon organization, are secondary.

The basic, major activity of an electric utility is to furnish electric service. This is the operating function involving two major divisions which are inseparably related. Energy must be produced, transmitted, and distributed to users, and customers must be found and held and greater use of electricity encouraged. There must also be an accounting for the business and, in order that plant may be purchased or constructed and men employed, the business must be financed. In addition, in the conduct of business affairs, legal questions arise and create an essential function of protecting and preserving legal rights. The basic elements in the structure are thus defined. Depart-

<sup>1</sup> An electric utility serving one of the largest cities in the United States, in response to a request for a copy of its staff organization chart, advised that its charts are not available for public distribution, thereby suggesting that there is something confidential about the form of staff organization. The same view prevailed many years ago among some corporation executives about balance sheets and profit and loss statements. Fortunately, this attitude is now an exception.



## HOW ABOUT ELECTRIC UTILITY STAFF ORGANIZATION?

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### Importance of Sound Organization

**“ONE** of the oldest of planned organized activities, the military establishment, long ago realized the importance of sound organization. Military history and recent world events attest that valiant armies have suffered defeat through faulty organization and, conversely, that men no braver have conquered because they were better organized.”

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ments or divisions emerge and we are prepared to begin a review of organization.

**T**HE procedure will be to present illustrations of existing organizations and to comment on their advantages and disadvantages. Only major functions and activities, beginning with the president as the chief executive officer, will be covered. Space will not permit the presentation of complete staff structures. A general description of the two highest levels of authority and responsibility is all that can be accomplished here. Nevertheless attention should be given to functions and the divisionalization of work below the second level, for here the largest number of employees is found and the problem of organization becomes somewhat more complex.

The illustrations of existing organi-

zations were selected from charts of a number of electric utilities which are identified as Company “A,” Company “B,” etc.<sup>2</sup> The companies range in size from approximately \$45,000,000 to \$750,000,000 of utility plant. The operations of some are confined largely to metropolitan areas while those of others are widely scattered, including one or more sizable cities. They serve populations of from about 300,000 to over 3,000,000.

In the discussion of the organizations of the various utilities, no criticism of individuals is intended or implied. Our interest is not in persons but in positions—in the way in which jobs are created, defined, and organized.

Since attention must be confined to the top levels of authority, principal consideration will be given to the ex-

<sup>2</sup> The charts referred to were obtained early in 1940 and may have since undergone change.

## PUBLIC UTILITIES FORTNIGHTLY

ecutive department. This is defined as the group of officers and executives constituting the president's staff and reporting directly to him.

**A**CTUAL conditions reveal that the number of executives reporting to the president ranges over a wide field. No relationship between the size of the company or the extent and character of its territory on the one hand, and, on the other, the size and composition of the executive department, is apparent. The question is presented, therefore, as to whether or not in each case there is a feasible span of executive control; that is, whether the executive load is excessive in some instances and insufficient in others. Inasmuch as the work of the chief executive should be that of planning, organizing, and directing the activities of his staff, it would appear that there is an optimum of executive burden. Generally, no more than seven executives should report directly to the president, and five are usually sufficient for a large company.

The first illustration, Company "A," has a long list of top-flight executives, no less than sixteen, who report directly to an executive vice president who in turn reports to the president, as charted below:

### COMPANY "A"

President

Executive vice president

Vice president—Intersystem power

Vice president—Transportation, storekeeping, building service, and real estate, etc.

Vice president—General superintendent of gas operations

Vice president—Secretarial, treasury, and accounting

Executive engineer

General superintendent of electric operations

Manager of new business

Director of research

Manager of rate research department

Manager of general service department

Auditor

General counsel

Manager of publicity department

Manager of employment and personnel departments

Manager of merchandising and domestic gas and electric sales

Assistant to executive vice president

**I**N the listing of the above staff, no attempt has been made to enumerate positions in the order of importance. But the absence of an organization plan is obvious. The staff has not been established in conformity with major functions, and operating conditions would scarcely justify a departure from this rule. The executive vice president carries an extremely heavy burden of direct supervision. Indeed it may be said with some assurance that the executive load passes the limits of effective administration. There is no possible need for such a wide range of immediate executive control. A gang foreman might be able to supervise efficiently the work of sixteen people or more, but it is unlikely that the chief officer can exercise adequate immediate supervision over such a large group of executives and others performing a great variety of important functions.

In the same company, several of the major executives have supervision over only one or two divisions. This is further evidence of unbalanced and probably uncoordinated division of work, because, as a rule, the span of supervision should be in inverse ratio to the

## HOW ABOUT ELECTRIC UTILITY STAFF ORGANIZATION?

level of authority. The condition existing in this instance suggests that major departments could be combined with closer coordination of activities. In addition there appears to be a lack of clear distinction between line and staff functions, a condition which is essential to the most effective administration.

In brief, the organization of Company "A" has the appearance of having grown without careful planning. It could be streamlined with a gain in administrative efficiency.

ONE of the largest electric and gas utilities, Company "B," evidences the same faulty distribution of executive load as Company "A," but in a different way. Only four executives report to the president, as follows:

### COMPANY "B"

President  
Vice president and general manager  
Vice president and assistant to president  
Vice president, secretary, and treasurer  
Comptroller

At first glance this may appear to offer a good example of a simplified executive structure. But such is not the case. It contains unfortunate weaknesses. First is the wide range of supervision of the vice president and general manager as can be illustrated by the staff reporting directly to him.

Vice president and general manager  
Vice president and assistant general manager  
General counsel  
Rate attorney  
Law, general attorney  
Personnel manager  
Purchases and stores manager  
Credit, collection, and stock sales manager  
Manager of publicity  
Automotive engineer  
Chief engineer  
Engineer, electric operation department  
Engineer, general construction  
Vice president and assistant general manager, "X" power division  
Vice president in charge of public relations and sales  
Engineer, gas operating department  
Vice president and executive engineer  
General superintendent (of 2 divisions)  
Division managers (one for each of 12 divisions)  
Division manager, gas division

THAT efficient administrative control would flow from this organization is highly problematical. Only a superman could effectively administer, at first hand, as must be the presumption, such a large variety of important activities. But a business should not be organized on the assumption that it will have the services of a superman, or continuity of organization will some day be lacking.



"THE attributes of sound organization—balance, stability, flexibility, capacity for growth, and adjustment to objectives—are frequently wanting. A common cause of this condition is the building of organizations around individuals rather than the fitting of individuals into organizations. Aggressive personalities are permitted to expand their spheres of influence by absorbing a great variety of duties or by over-emphasizing their work."

## PUBLIC UTILITIES FORTNIGHTLY

The second apparent defect is the position of vice president and assistant to the president. This appears to duplicate in some degree the position of president and is superfluous. At least, the organization chart does not reveal supervision over a major business activity. If the staff were properly organized, there generally would be no need for such a position, as will be discussed later.

Other weaknesses are apparent, among which is again a failure to distinguish clearly between line and staff functions.

**I**N the third illustration, Company "C," the president is supported by a staff of seven.

### COMPANY "C"

#### President

Vice president in charge of operations

Vice president in charge of sales

Vice president and treasurer

Vice president without portfolio

Attorney

Personnel manager

Assistant to president

In this case, the major function of rendering electric service is divided between two departments, known as "Operations" and "Sales." There is some merit to this division but the disadvantages outweigh the advantages. However, it must be recognized that the responsibilities of the so-called operating vice president do not extend to all operations but are limited to plant operation, maintenance, and construction. In reality, therefore, he is solely a plant executive or manager. But plant activities are only a phase, although an important one, in the sum total of operations. Consequently, such a division of initial authority and administrative control creates divided responsi-

bility and its attendant problems. If there is failure in business development or in holding business, the chief executive, in addition to his other administrative duties, may encounter serious difficulty in fixing responsibility. There is then imposed upon him the problem of determining whether the failure is due to plant management, perhaps expressing itself in high costs or poor service, or to commercial conditions, such as high rates, unreasonable terms of service, and poor salesmanship.

**I**N the second place, the division of executive authority between plant management and commercial activities will tend to disrupt the stability of the organization. In case of a vacancy in the presidency there will not be available for succession, from the operating departments of the business, a man who has had administrative experience in both plant and commercial operations.

The structure of "C" not only contains elements at variance with sound administrative practice but others with dangerous potentialities. A vice president is charged with both accounting and treasury matters. This is an antiquated form of corporate office, as is rather universally recognized in other enterprises. The authority of the vice president and treasurer extends to meter reading, customer billing, collection of money, disbursement of funds, and custodianship of cash, in addition to accounting. Thus there is no internal check on funds which the single vice president does not control—a manifest case of excessive authority, inadequate accountability, and, consequently, of improper division of activities and responsibilities.



### Systematic Organization in Business

**"I**t is not implied that a business with an unsystematic organization will invariably suffer from higher costs than one which is better organized. More favorable opportunities, superiority in the quality of men and machines, and other conditions may, of course, counteract to some extent an inept system. But this begs the question and it may be concluded without equivocation that operations within a poorly planned structure will be less efficient and economical than when the organization is best designed to accomplish its purposes."

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Other elements in the structure are of doubtful advantage. The executive staff includes a vice president without portfolio and an assistant to the president. What are their functions? Certainly they do not correspond with principal business activities. The former may hold the position of executive vice president whose voice is heard in most if not all matters. This would confer upon him the duties of the president, without the responsibilities and the same degree of accountability.

There are but two justifications for an office of vice president without portfolio: (1) humane considerations, or (2) temporary expediency. A competent officer valued for his broad experience and judgment, but partially incapacitated, might profitably be retained as an adviser to the president. Or if a department head, or another person, is not as yet fully qualified

for the presidency, he might serve temporarily as vice president without portfolio until he has acquired the broad experience and understanding essential for the presidency.

The same observations may be made concerning an assistant to the president. This generally is a superfluous position, except in very large institutions. The president should have not one but several assistants, and the best are to be found in his executive staff who have responsibility for the major functions of the business. If these executives are qualified for their work, occasion will seldom exist for an assistant.

**T**HE next illustration, Company "D," is interesting, although anomalous, because it does not appear to have a single chief executive officer, unless this authority is vested in the

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president of the parent corporation. Its organization chart starts with a block containing the president, a vice president, a comptroller, and a "sponsor." Branching off from this block are a vice president and general manager and the secretary and treasurer who reside in the territory served, but three of the principal executives reside several hundred miles away in the city of the principal offices of the parent company.

In such an organization, is the president the chief executive officer or merely a local representative without the full normal authority and responsibilities of a president? Inasmuch as his authority appears to be limited to certain, but not all, local operating matters, the president is, in fact, a vice president and general manager. The duties of the vice president who is stationed at headquarters of the holding company are not indicated by the organization chart, but he appears to act in a coordinate capacity with the president. What are the duties of the comptroller and of the "sponsor" who likewise are stationed in the holding company offices? There may be a reasonable and convincing explanation of this form of organization, but it is doubtful, for such a structure is not conducive to definite responsibility, to fixed accountability, or to organization stability.

In another group of companies, the president of the holding company serves as president of the operating companies in spite of the fact that he resides and has his office hundreds of miles, in some instances, from the territories served. Thus local authority is highly restricted—a condition unfavorable to local responsibility to em-

ployees and patrons. But in this case there is no window dressing by the ostensible existence of a local president who in reality does not hold such office.

THE organization chart of one company, "E," in this system, inconveniently presented on a sheet 42 inches by 35 inches in size, reveals the same faulty distribution of executive functions and lack of simplified coordination as in "A" and "B," but also a division of responsibility between two executives for collection accounting. The highest local executive, a vice president and general manager, has the following staff:

### COMPANY "E"

- Vice president and general manager
  - Assistant general manager
    - Stenographic and general files
    - Public relations
    - Advertising
    - Statistics
    - Credit manager (including collection)
  - Assistant secretary and office manager
    - Property records and costs
    - Main office accounting and supervision of local office accounting
    - Centralized billing supervision, local office meter reading, billing
  - Commercial manager
  - General superintendent (plant operation and engineering)
  - Division managers (4 in number)

A careful plan of organization is not evident, and in this instance, as in others, an assistant is interposed—probably needlessly—between the vice president and his department heads. Hence, on the basis of the manner in which the chart is drawn, the question may be raised as to whether the department heads report directly to the as-



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sistant general manager or to the vice president. In any event, the structure does not promote clear lines of responsibility and may lead to by-passing of authority and weakening of morale.

**T**HE organization of Company "F" is not clearly revealed by its chart. Eleven people appear to report directly to the president, including a vice president and general manager, although nine of the remaining ten appear to report also to the vice president and general manager. In addition, six other executives or department heads report directly to the general manager. In outline, the organization seems to be as follows:

### COMPANY "F"

President  
Assistant to president  
Vice president and general manager  
Group reporting to both president and general manager—  
Vice president and controller  
Secretary  
Treasurer  
Manager of adjustment department  
Vice president in charge of sales  
Director of personnel  
General attorney  
General purchasing agent  
Advertising manager  
Group reporting to general manager only—

Vice president in charge of operations  
Superintendent of system planning and development  
Superintendent of inventory and valuation  
Manager of engineering and construction  
Superintendent of right of way  
Office manager

Such an organization is so completely at variance with major functions and sound practice that further comment is unnecessary. It divides and decentralizes responsibility to such an extent that strong administration becomes highly improbable. The same absence of balance is found in lower levels of authority in this company.

**C**OMPANY "G" serves a large metropolitan area. An executive vice president reports to the president and nineteen persons report to the executive vice president, thus imposing upon him a strenuous burden.

### COMPANY "G"

President  
Executive vice president  
Secretary  
General counsel  
Vice president in charge of engineering  
Vice president in charge of sales  
Vice president in charge of finance and accounting  
Treasurer



**Q** "A FEW corporations regularly send organization charts to their stockholders. But such instances are rare. Indeed in many companies staff charts of any kind are not available. Furthermore, the organization charts that are prepared are sometimes poorly designed, if not inaccurate. Although by no means conclusive, this lack of essential information and the involved and confused state of some charts may suggest that systematic organization does not exist, except by chance."

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Manager of public relations  
 Manager of rates and standard practice  
 Manager of personnel  
 Manager of service operations  
 Vice president of electric operations  
 Vice president of gas operations  
 Purchasing agent  
 Manager of customers' service  
 Division managers (two of the five known as regional vice presidents — all reporting to both the manager of customers' service and the executive vice president)

On the whole this structure departs from sound standards. Here again is seen the failure to recognize simple functionalization, coördination, and the limitations of executive span. Furthermore, there seems to be some vague tie between treasury and finance and accounting matters not clarified by the chart.

**I**N Company "H" there is an unfortunate sharing of responsibility between the general manager and the treasurer, inasmuch as the manager of credits and collections and the head of the stores department report to both. Another involved arrangement exists in the apparent joint supervision by the treasurer, secretary, and general manager over divisions. The organization appears to be as follows:

### COMPANY "H"

President  
 Treasurer  
 Secretary  
 General manager  
     Manager of credits } coördinately  
                             and collections } with  
     Stores department } treasurer  
     Chief engineer, superintendent of  
                             power, production, and distribution—  
     Load dispatching and relays

Meter foreman  
 Construction department  
 Production department  
 Advertising department  
 Sales department  
 Superintendent ice  
 Superintendent autos  
 Claim department  
 Personnel department  
 Rate department  
 Division managers (with accountability to the treasurer, chief engineer, and secretary, also)

In this case is found inadequate executive load with respect to the president, an excessive load on the general manager, and vague lines of authority.

**I**N the last illustration, Company "I," the organization of the major executive staff is generally superior to that of any of the companies shown. Six executives report to the president, as follows:

### COMPANY "I"

President and general manager  
 Vice president in charge of operations  
 Vice president and secretary  
 Treasurer and assistant secretary  
 Assistant to president  
 General counsel  
 Purchasing agent

In this company the vice president in charge of operations has supervision over both plant operations and commercial activities. He is supported by a staff of three executives: general superintendent, sales manager, and chief engineer. The major weakness in the top organization is the combining of treasury and accounting functions under the treasurer and assistant secretary.

The title of "assistant to president" is inept as this executive has jurisdic-

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tion over the personnel department and statistical research, which are two unrelated fields.

OTHER enlightening illustrations could be given. However, the foregoing are sufficient to show, at least, the manifest need for further thought on staff organization and the abundant room for improvement. But this review merely scratches the surface. Similar, and even worse, confusion may prevail, and in some instances clearly does, at the lower levels of authority.

The cases cited disclose a wide disparity in organization structure and the general absence of a plan or pattern. Perhaps the existing disparity has some justification in differences in operating conditions, but more convincing demonstration of this should be required to satisfy investors in utility properties, directors, and others. It is inconceivable that each structure presented is the best, and this view is fortified by an examination of other companies.

Whatever the facts, it will be prudent for management to review its policies and methods in several areas, including staff organization, and to be prepared to justify what it does. Change may be laborious, particularly

when the matter involved is the creation of those who must make the decision. But resistance to change may be unfortunate. Moreover, penetrating inquiry might reveal that defective structure is symptomatic of a pathological condition. It may evidence more serious weakness. Progressive management will want to know if such possibilities exist and a thorough examination of staff organization may prove to be a useful key. Then, also, there are too many interests concerned with electric utility operations for management to be complacent. Stockholders, creditors, patrons, and others will want assurance that policies and practices are sound. There are many indications of such growing alertness.

In any event the time has arrived for management to dismiss any ideas that the structure of staff organization is of confidential nature. It should report more fully on the subject and explain why it has adopted a certain form of organization. Of course this is only a phase of administration and other administrative policies, methods, and controls will bear close study. But full disclosure of the form of organization will inspire confidence and erect another bridge across the gap between ownership and management.

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### After the War Is Over . . .

*"VAST new uses must be found for aluminum [after the war]. The air transport industry expects a post-war expansion, but it is a question whether the aircraft industry will continue to absorb tons upon tons of this light metal. Seldom in peace time do steel operations reach capacity, and now capacity is immense. The machine tool industry will be able almost to industrialize the world. Under such circumstances, will private concerns dare to buy government plants? And if purchase options are not exercised, what of government competition?"*

—EDITORIAL STATEMENT,  
*The United States News.*



## The Passing of De Luxe Transit

Both direct and indirect effects of the war on transportation of persons and goods are already being manifested—Possible effect on transportation systems in post-war times.

By T. N. SANDIFER

**"T**RANSPORTATION as usual" today is added to the list of those other things, trouser cuffs, sugar, coffee, razor blades, and auto tires, that for the duration of this war will not be "as usual" again. To this, in keeping with the season, should be added as a corollary that vacations, if any, likewise will not be as usual, or even like anything that was considered even remotely possible as late as two months ago. The private auto, the motor launch, and the trailer are out.

Instead of all these things being allowed normally to remain a part of everyday life, the nation is about to be treated to a spectacle of whole regions fighting for their economic existence as the cut-off is tightened from Washington on the transportation that in the past has spelled their lifeblood. The possibilities dwarf into comedy the old drama of the new western town fight-

ing "the interests" for the railroad right of way. Instead of some such isolated affair, the whole continental commercial and economic map is being remade.

For some time past, as the strangle hold of rubber shortage tightened, individual communities have taken local steps such as restricting taxicab cruising, or staggering hours of one or another community groups, or suspending within a state some luxury-bus service. Certain California bus companies, for example, suspended some months ago chartering of busses for sight-seeing or pleasure trips, outings, and similar purposes.

There is a good reason why such steps should have been taken at an early stage on the Pacific coast. San Diego, with 27 per cent of its 1940 population checked as newcomers, and Los Angeles, with a reported 150,000 new

## THE PASSING OF DE LUXE TRANSIT

population since 1940, are indicative of the trend which nationally is represented by the fact that there has been a better than 4 per cent rise in population owing to present unusual conditions in all cities over 25,000 checked by government sources.

There is, as a prime factor in the municipal transportation problem, a nation-wide shoal of population movement estimated by Federal Security Administrator McNutt at potentially 10,000,000 in the next year. This human tide is not drifting, but moving into communities where work calls. Its first waves already have been tabbed in a cross-sectional city-to-city check by various Federal agencies, and show temporary gains in population for virtually every industrial community of the country.

THIS huge movement of people is attaining its highest levels as the nation normally moves around in temporary freedom from the desk and work bench—on vacation. Furthermore, the coming months will see the American military effort beginning to reach a peak, meaning that troop movements on a mass scale are to be expected. Here, then, is an unprecedented strain on the normal transportation facilities of the country, public and private, municipal and interstate.

But the transportation facilities of the country are no longer normal. In municipalities the burden, even before the increases in population noted, was shared by the street railway and interurban rail systems, the city taxicab companies, and the automobiles of private drivers. Now, with the greatest strain in their history on them, two of these three transportation mediums

are virtually out in the case of one, and so severely curtailed in the other that only the street railway systems are left. For extended travel the railroad and bus remain, but with new limitations.

The two factors which have knocked out the private car, and the taxicab services to a much lesser degree at this stage at least, are too well known to the reader to need much elaboration. They are the gas and oil shortage, and the tire shortage. To these two, a little later will be added a third factor not now present to any extent—a shortage of automobiles. If there are still no gas and no tires the auto shortage will seem academic, but it will be there, anyway.

IF certain steps widely advocated are then taken, such as the sequestration by the government of private automobiles, or private tires, there will be added yet another load on the surviving transportation mediums left to the public. The possibilities can be carried speculatively to the point of wondering who will get priority on new shoe leather when this stage is reached.

Meanwhile the potentialities in the current tire and gas rationing are very real and, again speaking seasonally, they carry the possibility of life or death for communities all over the country. To understand this, consider the plight if Mr. Smith or Mr. Deeds elects to go to the country, instead of town, for a change.

If he uses his car, recklessly disregarding the effect on his tires, he has to consider the precarious state of gas supplies in the East. He can, for instance, use up his entire quota of gas to get to his destination, and face the prospect of having to store his car when he is ready to leave—remember,

## PUBLIC UTILITIES FORTNIGHTLY

he is allowed so much gas for a stated interval, and his vacation is not geared that way at all; he has to get it in during the week or two weeks allowed him.

"All right," Mr. Deeds may say, "I'll take the bus." Let's see if he will.

The regularly scheduled bus services are operating, and at this writing neither busses nor other commercial highway transportation is being rationed on gasoline. Tires are everybody's problem. Mr. Deeds, however, must consider some other factors. These are embodied in the 12-point policy evolved by the Office of Defense Transportation, and in the requests made by the commercial carrier bus concerns.

**P**ERTINENT for consideration in the 12-point policy first-mentioned is this:

Busses not operated in regularly scheduled service, whether run on a charter or individual fare basis, should, according to this policy, be operated only to carry workers to and from places of defense employment or to meet contingencies where lack of such transportation will interfere with the war effort.

Under this policy busses chartered to transport selectees, groups made up principally of the armed forces, groups

going or coming from military posts in organized recreational activities, school busses, and transportation of underprivileged children, are viewed as all right.

Not all right, and accordingly being discontinued increasingly in various communities, are bus services chartered for civilian parties to the beach, pleasure resorts, picnics, points of historic interest, the races, baseball, and other sporting events.

**T**HE vacationer should look that last list over carefully. Incidentally, the Office of Defense Transportation has recognized that certain public bus services might be technically open to criticism for refusing such business, and this office has recommended that any penalty be waived under such circumstances.

However, the regular beach and other resorts that have come to notice of this writer have advertised that bus service is available, and the only stricture is the injunction to spread the vacation period over other months as well as the peak summer months so as to smooth out what would otherwise be a travel hump, and for individuals to plan the start of their trips for other than the week-end rush periods; instead of itinerating, plan to stay at one resort, and try to pick one near home.



**Q** "For some time past, as the strangle hold of rubber shortage tightened, individual communities have taken local steps such as restricting taxicab cruising, or staggering hours of one or another community groups, or suspending within a state some luxury-bus service. Certain California bus companies, for example, suspended some months ago chartering of busses for sight-seeing or pleasure trips, outings, and similar purposes."



## THE PASSING OF DE LUXE TRANSIT

**T**HE effect of gasoline rationing requires still further thought in the vacationer's considerations. Motorists, for instance, who faced the necessity of traveling through the rationed eastern areas, were warned ahead of the date for beginning rationing to get home if they could before rationing started.

This warning was meant for those who had been spending the late spring months away from home; but it now applies to those living elsewhere who have contemplated a trip to one of these eastern states. Bear also in mind that a still more comprehensive rationing plan looms, and the unusual complications of a driving vacation this year become apparent.

**I**F the effect on the average vacationist is one of slightly dampening his anticipations, gasoline rationing, as pointed out in the beginning of this article, threatens the livelihood of whole communities, along with the tire rationing stringency. The tire restriction is not such an ominous threat as the gasoline curtailment, obviously, but it is a factor.

New England hotel and resort owners, as among those first to feel any let-down of tourists, the summer being their season, already are stated to have flooded Washington with protests that their half-billion dollar recreational industry is threatened with virtual extinction.

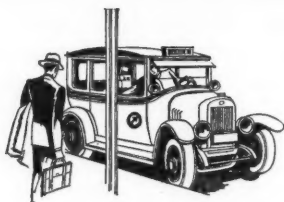
In succeeding seasons the geographic areas of the country concerned doubtless will follow with similar protests. The Keystone Automobile Club was reported among other similar organizations protesting the effect of gas rationing.

**T**HIS effect is very apparent not only in the case of recognized general resort areas, such as New England, or other sections, but in coming months will be felt increasingly by literally hundreds of smaller communities which derive a substantial part of their economic support from week-end summer colonies. This is particularly true of the East, and in the case of overcrowded Washington, D. C., is applicable to scores of Maryland, Virginia, and West Virginia spots.

Mention of Washington recalls a slight error of judgment on the part of the gas-rationing authorities at the outset of the rationing period. It was bravely announced on their behalf that Congressmen in the capital would have to take their chances on gasoline along with the run-of-mine residents, including state and national taxpayers there. This, it quickly became apparent however, was a somewhat premature view of the matter. It was taken without due thought.

When the rationing boys had caught their breath from telling the public all the bad news that could be summed up in a few columns, they had a somewhat different version of the rationing system as applied to members of Congress. At last report many gentlemen with congressional tags on their cars were still using "X" cards, which are somewhat like an A-1-a priority rating; their wives would have to be satisfied with "A" cards, but the Congressmen were free to fill up the tanks, as usual.

It is a comment on Washington that this procedure went on in the city while the OPA officials were still piously declaring that "it warn't right."



### Population on Wheels

**“U**NDER peace-time conditions United States is literally a population on wheels—33,000,000 motor vehicles serving 130,000,000 people. Assuming the average car owner continues to operate his car at anything like the usual rate, it is foreseen by Federal authorities that 20,000,000 automobiles will go out of use in from twelve to fifteen months more, and by some time in 1943 there will be still available, with tires and in operating condition, only 8,000,000 cars.”

**A**NY forecasts as to the outcome of the gas-rationing program in the East would be speculative at this stage. It may be indicative of the situation to recall that only a few days before Leon Henderson, loquacious administrator of prices and rationing of all things, decreed approximately 3 gallons per week for eastern drivers, Petroleum Coördinator Ickes was quoted as stating that “I refuse to believe that people will be put on such short rations” and that he saw “no necessity for such a drastic cut.”

Meanwhile, the cumulative effect of gas rationing, growing scarcity of rubber, abnormal pressure of population on existing transportation of all kinds was being curtailed. Milk deliveries in many cities have been transposed to daytime, where, from immemorial times, the milk wagon has been symbolic of two o'clock in the morning.

The effect in this instance has been heavy loss of business reported by the dairy companies concerned, because many people preferred to buy their milk independently under this condition so as to have it when needed. This is a single detail in a changing mosaic of conditions brought about by revolutionary transportation difficulties.

**N**ATIONALLY, the Office of Defense Transportation has under way a twofold campaign designed to ease the pressure on railway and bus facilities, and, in communities, to spread existing transportation of all kinds as widely as possible.

Under the first heading proposals are still being widely discussed for actually rationing railroad and bus travel under specific conditions. One official of a railroad organization summed up the idea when he observed that “It is entirely possible that people wanting to

## THE PASSING OF DE LUXE TRANSIT

travel to and from congested centers will have to show sufficient reason before they can buy tickets."

Elaborating this theme, he remarked that the time might be near when a railroad executive, or an industrial expert, might reasonably be expected to be accorded the accommodations available, ahead of a lady en route to Reno on her own business.

In the face of current operating demands, under which railroads frequently have to divert rolling stock for transportation of troops and their combat equipment, it has been stated by rail officials that traffic increases have been 25 to 100 per cent in congested areas of the country.

OTHER more concrete steps than mere informal rationing of accommodations are in prospect, according to Office of Defense Transportation. Under consideration are the elimination of trains on militarily or industrially nonessential or thinly populated routes, reduction of the number of trains serving a given area, drawing out of schedules, increasing the stops, pooling of equipment, and withdrawal of luxury accommodations for non-essential travel to put it to war use. Lines not running at capacity might, for instance, be called on to shift equipment to overburdened roads.

Easing the pressure on municipal transportation utilities, the ODT has launched a car-pooling campaign to enlist public support of the idea of sharing cars to and from work, and has moved to channel street, interurban, and bus travel into essential traffic use in all congested areas.

In addition to car pooling, the nation-wide community program in-

volves staggering of transportation schedules and employment shifts, and, as noted, sweeping changes in local delivery practices involving laundries, stores, services of all kinds, and, perhaps to come, a radical change in the nature of accommodations for mass transportation.

Many of the plans which at this writing were in the stage of proposals for consideration may be actualities when this appears. With an estimated nearly 15,000,000 people directly engaged in war production, and a large proportion of these properly classified as "dislocated traffic," to borrow a term, some change in the normal routine over the whole country seems foregone.

UNDER peace-time conditions the United States is literally a population on wheels—33,000,000 motor vehicles serving 130,000,000 people. Assuming the average car owner continues to operate his car at anything like the usual rate, it is foreseen by Federal authorities that 20,000,000 automobiles will go out of use in from twelve to fifteen months more, and by some time in 1943 there will be still available, with tires and in operating condition, only 8,000,000 cars. Most cars at present are carrying slightly more than one person per car per trip.

Added to this rapidly declining number of available private cars is the rubber situation, which is an interlocking factor, obviously. It is estimated that available stocks of rubber in the country are actually only enough to meet the next year's military and essential defense requirements; 95 per cent of the supply of new rubber came from areas now held by Japanese forces, and

## PUBLIC UTILITIES FORTNIGHTLY

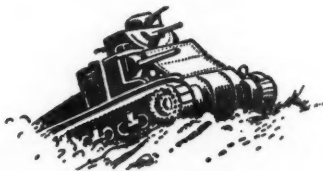
the only practicable source of quick supply now is in the stocks of reclaimed rubber from old tires, etc. The synthetic program will not provide a practicable supply for some time.

There is, then, the mechanical problem of keeping in service the remaining automobiles now operating, through conserving their tires, through increasing their use for essentials, and decreasing such use otherwise. As an extension of such purposes are various proposals for requisitioning tires from private owners, or the cars themselves, and these ideas have progressed to the stage of legislative proposals in Congress. It should be added immediately, at this writing, the proposals have been received very coldly in Congress.

SOME net effects of the upheaval in transportation habits already are being manifested. Restrictions on transportation for goods of a nonmilitary character are tending to narrow

the field of sales to adjacent sales areas of producers or shippers; there is a strong Federal demand for removal of state barriers to transportation which complicate emergency movement of freight or passengers. These include state laws requiring certain train lengths which may delay a shipment of war goods while a train is broken into the legal number of cars, or state load limits for commercial trucks or other carriers, and many others.

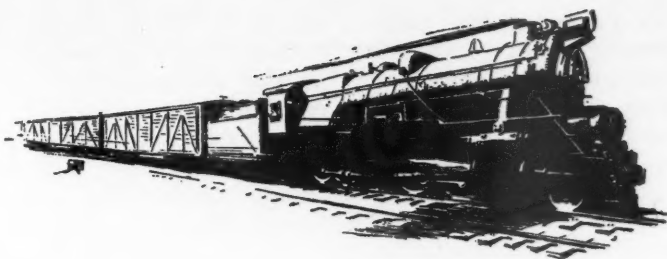
Another effect, partly of transportation, and partly due to emergency conditions which may stabilize, is a concentration of industry in limited areas, undermining the structure of the smaller community. If the heavy centralization of population in certain areas persists after the war it will reverse a deliberate program of the early New Deal days, and will, in turn, have an effect yet to be foreseen on the transportation systems of post-war times.



### State Regulations and the War Effort

**"I**F we are now going to 'pool' the state highways for war purposes, it seems that the Federal government will be under both practical and moral obligation to assume the expense of bringing them up to uniform standards, and repairing damage that may be caused by government-authorized overloading. And so 'all across the board' we shall have to work out along logical and practical lines a redividing of fields of Federal authority and state and local authority. This may be one of the permanent changes—or reforms—that will come out of war."

—EDITORIAL STATEMENT,  
Arkansas (Little Rock) Gazette.



## The Australian Railway System's Rôle in Defense

Rail transportation, declares the author, is faulty and slow in that country and cannot be counted on too much in the war, but the people are fit, athletic, and resourceful and have proven themselves to be excellent fighters.

By ARTHUR C. SELKE

WITH the Japanese now definitely in control of the most vital of the East India islands, the question of Australia's defense becomes paramount in importance. That country's railroads will play a very important part in the nation's defense, far more than any other type of transportation, except, perhaps, overseas ships. Since American nationals have been called to assist the people "down under," this matter is of interest to the inhabitants of our country as well.

There are various ways of appraising a nation's rail systems. "Ton miles of freight carried," "tons of freight borne," "capacity of rolling stock," and numerous other criteria are of importance. For the layman, "rail mileage" is the most commonly used. It is best understood by him, the figures are easily obtained, and, if correctly inter-

preted, they have considerable significance.

In the matter of length of track Australia makes a very favorable showing—27,000 miles in all. This is small—only compared to the United States; it is larger than many more populous countries. The ratio, nearly 4,000 miles of rail per million people, is exceedingly high. The Australians are resourceful and intelligent and could make the best use of this asset in time of war. The climate imposes no serious direct handicaps to the system. One might expect the system to have considerable military effectiveness from these figures. Still, the Australian railways have some serious weaknesses not apparent in the crude mileage figures.

It is well for us, as allies, to recognize some of the weaknesses of the rail system. At the very best, it would be

## PUBLIC UTILITIES FORTNIGHTLY

difficult for a nation of seven million people, covering an area as large as the United States, to have a transportation system which would be as effective as those of more populous countries. This people has done well to maintain such a large mileage of track, but the empire builders of the Antipodes have also been subject to human error—no more, perhaps, than those of more populous countries—but in this land the flaws were to become more apparent and significant. When we count on the railroads of this land, we should be aware of their weaknesses, and not expect too much of them in time of war.

**I**N the first place Australia has the smallest amount of arable land of any populated continent. The proportion of desert and other dry land is greater than for any continent. Only a few areas in the eastern and southeastern part of Australia, plus a tiny fragment of land to the southwest, is capable of intensive development, unless an even smaller part of ultra-tropical lands northward have promise. The railroads are naturally located in the populous areas. Some lines are accidentally of strategic importance. One transcontinental line was built to connect the fertile southeastern section with the small fertile southwestern area of the continent, but practically the whole line runs through barren land. Another line was started to join the north shore with the south shore, but the project was not completed. The lines running from the south and the north shores are now connected by a hastily built highway to close the rail gap, an emergency device at the very best. The truth of the matter is that only a small part of the continent could

support a decent highway or rail system, and there was a limit to building profitless strategic lines in the unoccupied part of the country.

From the first the Australians have had a strong tendency to settle in the governing cities. All of these, later to be the capitals of states of the commonwealth, are located near the coast. In some cases the state metropolis has a majority of the state's population; in all cases the main city's political influence is paramount. Since the states have all built their own railroad lines, it would be natural to focus all routes on the one influential city of the state. Not a single important rail center comparable to Denver, Spokane, and other American commercial centers could develop in the interior of the nation. Even though other routes might have proven more economical, political influences would not permit many except capital-focused lines to be built. A coastal city like Newcastle was not permitted to have direct connection westward through the excellent pass in the New England range.

**T**HE effect was a twofold one. First, the lines were not profitable as they should have been. Second, the rail building increased the population dominance of exactly those regions which needed it least, the coastal areas. The vulnerability of cities near the shore was not realized until the Spanish insurrection. The island continent is unfortunate now in having not only ideal targets for airplanes only a short distance inland—the rail lines and terminal facilities are also poorly placed. Only a few of the rail lines are well located from a strategic point of view, if distance from the ocean is a factor.



## THE AUSTRALIAN RAILWAY SYSTEM'S RÔLE IN DEFENSE



### Centers of Population in Australia

**"FROM** the first the Australians have had a strong tendency to settle in the governing cities. All of these, later to be the capitals of states of the commonwealth, are located near the coast. In some cases the state metropolis has a majority of the state's population; in all cases the main city's political influence is paramount. Since the states have all built their own railroad lines, it would be natural to focus all routes on the one influential city of the state."

Australia's transportation systems were built before the commonwealth had been formed. Hence we had six separate rail systems, one for each state. After federation the national government built the transcontinental line. We have, then, seven separate railroad companies, as many as if private companies operated them, perhaps, but with few of the advantages which nonpolitical private companies might offer. One could not say that Australian railroads were in any sense integrated.

Australians have frequently been criticized for permitting a diversity of rail gauge to develop in their nation. That this is a serious transportation defect cannot be denied, but the people of that southern hemisphere land probably made no more mistakes than other continents, for that island is, after all, a continent.

**EVEN** North America has two gauges, one in Central American

countries, the other for Mexico and land areas northward, and for much the same reasons that we find on the opposite side of the earth: lack of unity among the political divisions of our continent, and the greater cheapness of the Central American narrow gauge lines.

Europe has more widths of track than Australia, and the same may be said of Asia. We are too prone to use the United States as the model in discussing such matters. But whereas our net of track was developed long after we were a compact nation, the sections of Australia enjoyed autonomy while their railways were built.

New South Wales accepted Gladstone's suggestion to construct lines of standard gauge. Victoria placed the rails 5 feet 3 inches apart.

South Australia followed Victoria's example for her main lines, but built the rest with 3½-foot width for reasons of economy. The other states built the

## PUBLIC UTILITIES FORTNIGHTLY

more economical narrower line almost exclusively. When unification came it was possible to travel between two capitals only without a break in gauge (Adelaide to Melbourne). Later one could do so between Sydney and Brisbane.

The Federal government built the so-called transcontinental line like those of New South Wales so this did not complicate matters any. This brief historical account should show that Australian fallibilities are like those of other lands under similar conditions.

**T**HE consequences of the diversity of gauge are greater, however, partly because the island continent's population is small and partly because it tends to force the traffic into the exposed coastal areas. One may go from the Cloncurry mines of the hinterland of Queensland to Perth, in western Australia, but the route is roundabout, and the three types of gauges are so placed as to necessitate six transfers. Tasmania is an island so her difference in roadbed is of no serious consequence. But Northern Territory, Queensland, West Australia, which have the same widths of track, are separated from one another by railways whose gauges are different. One must transfer in going between the two largest cities, Sydney and Melbourne. The earnings on the various train services of the continent are too small to remedy this serious defect. Hence interstate commerce on land is small, and coastwise vessels carry much which ordinarily would be borne on land. Bulk goods, like iron ore and long-distance haul of coal, which figure so largely in many transportation systems, are largely carried by water in Australia.

Of course there are other types of transportation in Australia. Coastwise traffic on the oceans is important as we would expect on an island continent. The inland waterways and pipe lines for fuel are of little significance. Indeed the longest pipe line is to carry water, not petroleum or gas, from Perth to Kalgoorlie. A few power lines carry electricity some distance inland, but the generating stations are mostly near the coast. The highways are important but they again serve populous coastal areas, and have limitations due to Australia's lack of petroleum.

**B**UT these forms have many weaknesses also. Ocean vessels, including those near the shore, are vulnerable from surface, undersea, and air attacks alike. Their terminals can be attacked from above also. This form of conveyance is slow also. Highways will serve their best uses to extend and supplement the rail shipping of Australia in the hour of peril.

Air transportation is largely dependent for its traffic upon large cities, and the various state capitals "down under" must furnish planes with their chief freight or passengers. However, many inland and isolated areas, even in New Guinea, are also served, and good landing fields have been placed in the interior. All equipment, planes, landing fields, personnel, pilots, and experience are directly useful for the military effort.

After examining the above points, we find that railroads, like all other transportation in the Antipodes, have pronounced weaknesses, the air conveyance being the only exception. In a war effort the limitations will become apparent, Since this continent will have

## THE AUSTRALIAN RAILWAY SYSTEM'S <sup>A</sup>ROLE IN DEFENSE

depend upon rails for her most reliable carriage she must brace herself to safeguard this vital arm in every way. Two-fifths of the coast is without track of any kind—a desert, to be sure, but useful for landing operations nevertheless. The narrow gauge line leading to Darwin is unconnected except by a hastily built automobile highway. The chief industries useful for war are in New South Wales and Victoria, served by standard and wide track. The points which will most likely be attacked are in West Australia, Queensland, and North Australia, served by the narrower spread of rail, where they are served at all. Carriage of goods from producing centers to strategic points is slow at best. The terminals and many of the lines are close to the coast—difficult to protect from air by either antiaircraft guns or by protecting planes. Facilities for transferring traffic from one type of track to one of another width should be developed. Coordination with coastwise shipping and highways should be effected. The fact remains, however, that this noble people of seven million souls works under an extreme transportation handicap.

**T**HERE are, of course, some brighter phases of Australian defense.

Thanks to the "White Australia" policy to keep the continent white, fifth column activity by oriental peoples will be extremely difficult. They are an outdoor people and would suffer less in this climate than most people if made homeless by the destruction incident to bombings or invasion. The health of this people is the best in the world with the exception of New Zealand. The food supplies and many other items are ample for her own needs and that of an expeditionary force of considerable size.

Some of the vital tropical areas have been well populated by this people. In the vital exposed areas elsewhere there is a forbidding desert which will act as an ally. Australia has developed an extensive manufacturing industry. The horse, still useful in war, is ample for her war needs even if there is an extension of the army from abroad. The people are athletic and resourceful. They have proven to be most excellent fighters in several wars, and will fight with vigor against an enemy.

**B**UT the rail system is faulty, is slow, and cannot be counted upon too much for defense. This fact must be recognized, for we must not expect too much from this form of transportation.

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### Efficient Democracy Made Difficult

**"D**EMOCRACY demands that a free public opinion shall control government, but the vast increase in the number of citizens who are directly dependent on government for all or part of their income has placed the freedom of public opinion everywhere in jeopardy.

*"When the point is reached where opinion can be manipulated or bought by officeholders so as to create and hold a majority, popular government is not longer really operating. Furthermore, the moral standards that are essential to its revival and maintenance suffer widespread determination."*

—ARTHUR C. MILLSPAUGH,  
*Excerpt from "Democracy, Efficiency, and Stability," Brookings Institution.*



## Should Utility Rates Be "Frozen"?

It seems clear, says the author, that the present trend is definitely away from a repetition of the last war and post-war debacle of increased costs followed by increased rates.

By FRANK B. WARREN

THE present war emergency may produce an entirely different philosophy from that which evolved from World War I in so far as rates for public utilities are concerned. Everyone is familiar with the pattern in the last war, which was, briefly, increased labor and material costs followed by applications for increased rates which were usually obtained. At least we all remember the horizontal increases in telephone and railroad rates which became effective during the period of Federal control during the last war and which were continued in effect thereafter. A different trend seems to be developing at this time. It cannot be said that the last war was without profit if the lesson of the danger of inflation was learned and remembered.

It seems needless to repeat the fundamental problem. In times of rising prices, fixed incomes in dollars necessarily buy less and less of the world's goods. Likewise, unelastic prices, such as public utility rates subject to regulation, will at best lag behind the in-

creases in costs associated with supplying the services involved. There are few schedules of public utility rates related specifically to individual costs, and none which are on a basis of advancing or decreasing with over-all costs automatically. This type of schedule has not been popular. It takes a considerable period of time usually to obtain an increase in rates under the time-worn method of seeking a schedule which will produce a "fair return upon fair value." A schedule of public utility rates established in, say 1936, and not adjusted since, would only by accident represent the result which would have been arrived at in 1942. If it is assumed that the answer, properly supported by cost studies and reasonable consideration of the future, was correct in 1936, it can hardly be correct in 1942, leaving out of consideration increases in volume and efficiency, and similar matters which would offset the rising price level. To take an even narrower view, it would seem that apart from any consideration of fair return on fair value,

## SHOULD UTILITY RATES BE "FROZEN"?

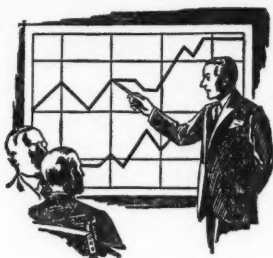
the utilities should be entitled to recover increased costs which would have the effect of swallowing up the apparent or estimated net earnings under existing rates. This was the problem faced by the Interstate Commerce Commission in considering the application of the rail carriers in 1941 for increased rates to offset increased costs, largely increased wages to employees. The commission apparently sought to hold rates at the previous level, except for the wage increases, and merely to provide sufficient additional revenue to take care of the specific added cost.

MORE recently a somewhat different viewpoint or objective has entered the field in this present war emergency. The Office of Price Administration is charged with the general duty of controlling prices and forcing excess purchasing power due to war activities into savings rather than goods at inflated prices. It is estimated that consumers' goods available for purchase in 1942, at March, 1942, prices, will be some twenty-five billion dollars less than purchasing power available therefor. In the absence of price control, prices would simply advance to absorb this twenty-five billion slack between demand and supply. With controlled prices it is hoped that this twenty-five billion will find its way into savings to help finance the war.

The Office of Price Administration has no jurisdiction over utility rates as such, yet its influence in this field may become important. In its first venture, OPA rather timidly suggested to the Interstate Commerce Commission that increases in rail rates, al-

ready approved by the commission, would make it difficult for OPA to hold down prices of certain commodities substantially affected by the level of freight rates. Freight charges have a material and immediate effect on the market prices for certain commodities such as coal, and a negligible effect on highly processed goods such as clothing. The commission denied the petition of OPA without hearing and without comment. The increased rail rates became effective for interstate traffic prior to March, 1942, although the effective date as to intrastate traffic in many states was subsequent to March, 1942.

IN May, 1942, OPA announced its goal of freezing all prices at the March, 1942, level. OPA did not claim jurisdiction over utility rates or attempt to make its over-all ceiling applicable specifically thereto. However, something very significant did occur subsequent to this over-all freezing announcement of OPA. As a background, it may be noted that the Bell telephone system granted substantial increases in wages to its employees in 1941; also, its operating tax load increased substantially as compared with previous years. The Northwestern Bell Telephone Company filed with the North Dakota commission an application for increases in intrastate rates in North Dakota. In Iowa, where there is no state regulatory commission, the company announced a 15 per cent increase in local rates. Subsequently OPA indicated its displeasure with this action of the Northwestern Bell Company, and a conference was arranged between the company representatives and OPA. According to re-



### Public Utility Rates during Times of Rising Prices

**"I**N times of rising prices, fixed incomes in dollars necessarily buy less and less of the world's goods. Likewise, unelastic prices, such as public utility rates subject to regulation, will at best lag behind the increases in costs associated with supplying the services involved. There are few schedules of public utility rates related specifically to individual costs, and none which are on a basis of advancing or decreasing with over-all costs automatically."

ports of this conference, the representatives of OPA frankly stated their desire to avoid all price increases of any kind whatsoever in order to check the inflationary trend. Following this conference, the Northwestern Bell Company announced withdrawal of the increases in Iowa and withdrawal of the application for increases in North Dakota. There has been no public statement on the part of the Bell system that it intends to abandon all attempts to increase rates for the duration of the war.

**T**HE Wisconsin commission, in declining to permit increased telephone exchange rates in Madison, Wisconsin, announced its policy to be one opposed to increasing rates for the duration of the war, although the commission recognized that there may be

instances when such action may be necessary to maintain the financial stability of the company under consideration. The commission declined to enter upon the customary valuation and rate hearing. It also stated that for the duration of the war rates should not be increased merely because a utility might be earning a rate less than one considered fair by the management. This order of the Wisconsin commission has not been contested.

The Georgia Public Service Commission recently postponed indefinitely the effective date of certain promotional electric rates of Georgia Power Company, stating that, under present curtailment and limitation orders, increased consumption could not be expected to offset losses under the lower schedule of promotional rates. The commission also modified its rules to



## SHOULD UTILITY RATES BE "FROZEN"?

require war industries seeking extensive power installations to pay for line extensions and substations upon the theory that war costs should be paid by the nation as a whole and not saddled on the general consumers of a particular utility. There was also some discussion of increasing costs, particularly taxes, which more than absorbed increased revenues. This action of the Georgia commission may be looked upon as a definite move to forestall applications for increased rates, since there is a specific approval of the Federal program for price stabilization in the commission's statement.

It seems clear that the present trend is definitely away from a repetition of the last war and post-war debacle of increased costs followed by increased rates, accompanied by the development of fantastic theories of valuation and rate making. It will certainly be of benefit to all concerned if another siege of long hearings, appeals, arguments, etc., may be avoided by a common-sense realization of the necessity for preventing inflation and, at the same time, maintaining the utilities in a condition where they are able to give adequate and efficient service; which means paying their reasonable costs (including reasonable capital costs) and maintaining their credit.

There is ground for assuming a realization on the part of public utility executives that prevention of a general inflation is worth a considerable price. The possibility of ultimately suf-

fering much greater damage through a general inflation than through presently accepting something less than what might be considered a fair return, has evidently been carefully considered by the management. It may be that out of this emergency will come complete abandonment of the cumbersome process of valuation and rate hearings which have fattened the bank rolls of "experts" and produced little other tangible evidence of benefit to anyone. The work of the state and Federal regulatory commissions in establishing sound investment records and "dehydrating" capital structures will prove invaluable in providing a basis for speedy adjustments necessary to keep the utility in a sound financial condition without regard to the nebulous "fair return upon fair value."

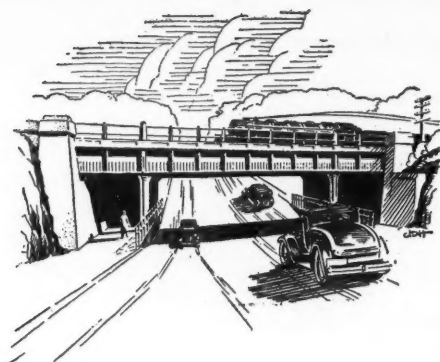
No one will question that complete equity cannot be achieved in the present circumstances. Some companies may have been fortunate in securing adjustments upward prior to March, 1942, under either the increased cost or "return on fair value" theory.

The neighboring utility, owing merely to the selection of a date, may receive somewhat different treatment. These inequalities should be resolved in the larger benefit of preventing undue inflation, and, so long as there is adequate appreciation of the necessity for financial stability of the operating companies, no stockholder has real cause for complaint.

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**"IF** any fault is to be found with government publicity agencies it is that they are often so afraid of the horrid word 'propaganda' that they lean too far in the other direction."

—EDITORIAL STATEMENT,  
*The Nation*.



## American Transit Moves the Masses

A reassuring statement from a spokesman of one of the most hard-pressed and overburdened operating industries essential to the war effort.

By CHARLES GORDON  
MANAGING DIRECTOR, AMERICAN TRANSIT  
ASSOCIATION

**T**HE transit industry today is confronted with the greatest task of its entire existence. In 1942, it will carry more passengers than ever before in its entire history. In 1943 and 1944, the riding totals threaten to reach astronomical proportions.

Today, the transit industry bears the grave responsibility of moving increasing thousands of war workers to and from their jobs, while at the same time expanding its normal transport facilities to carry those unnumbered millions who can no longer drive their automobiles.

In a few short months, the problems and thinking of the industry have been entirely reversed. While only recently we were tightening our belts to meet automobile competition, now we find

ourselves in exactly the opposite situation.

The automobile, which uses vital materials so lavishly, is now a luxury that the nation can no longer sustain. The country's major sources of rubber have been shut off suddenly. Gasoline rationing and shortages of automobile repair parts are right on our doorstep. And yet, people must move about in cities if any degree of normal civilian activity is to be maintained.

**T**HE national transportation crisis is rapidly becoming more acute, and the transit industry is in the very center of it. The spotlight of public attention has been focused upon our industry and its performance is now a matter of national concern.

## AMERICAN TRANSIT MOVES THE MASSES

In 1941, the transit industry carried 14,000,000,000 passengers. In 1926, the best year in the industry's history, 17,500,000,000 riders were carried. The American Transit Association now predicts an 18,000,000,000 passenger load for 1942, and a total of more than 20,000,000,000 transit passengers for 1943.

The dependence of the war effort upon transit service is strikingly illustrated by the fact that the highest increases in transit riding have been registered in centers of war activity. For example, transit traffic in Washington for the first four months of 1942 shows an 84 per cent increase over 1938; in Seattle the increase is 61 per cent; in Wilmington 79 per cent; and in San Diego 156 per cent.

Even in cities without war industries, traffic figures are rising by leaps and bounds each month. The totals will continue to grow as tires wear out and as more and more private autos are taken out of service.

Will the transit industry be able to handle this vastly increased load which is now thrust upon it?

The answer to the question is "yes," provided first that the required number of new transit vehicles and maintenance materials can be obtained, and provided second that cities generally adopt the recommendations of the Office of Defense Transportation for staggered

working and school hours, fewer stops, improved traffic control for transit vehicles, and other remedial measures.

As regards new transit vehicles, the outlook is uncertain at the moment. During the first five months of 1942, bus manufacturers were able to produce about 5,000 motor busses. As of June 1st, they had orders for approximately 7,000 additional busses on their books. The demand for new street cars and trolley coaches is likewise heavy.

The Office of Defense Transportation has recommended to the War Production Board that a total of 12,000 city busses, 800 street cars, and 600 trolley coaches be authorized for production during 1942. Although production has been going along during the first five months of 1942 at approximately this rate under month-to-month authorizations from WPB, no approval has yet been given to the entire year's allotment. These new vehicles are vitally needed if transit is to do its job.

The second matter of concern to the industry is the question of staggered hours. Our peace-time system of living has created crowded rush hours of travel in the morning and evening in most of our cities. In war time, this condition represents an enormous economic waste, as many transit vehicles



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## PUBLIC UTILITIES FORTNIGHTLY

which could otherwise be used to carry people lie idle in the barns and garages during all but a few hours of the entire twenty-four. By the simple expedient of adjusting its hours of work and school, the nation can go a long way toward solving its local transport problem with the addition of a minimum number of new vehicles.

The primary task before the nation is the winning of the war. All of our activities must be and are being directed toward that end. But we must also consider the fact that, when peace arrives, our transportation problems will not dissolve overnight. We shall face a long transition period before returning to normal.

**E**VEN after peace comes, the transit industry will be required to provide an abnormally large volume of service until the automotive industry is reconverted and the production of automobiles, tires, and repair parts reaches normal proportions.

Assume that by the most rigorous

conservation we still have 15,000,000 automobiles operating when the war ends, compared with 28,000,000 in 1941.

To reëquip these autos with new tires would require the full production of the tire factories for two years, even assuming that no new automobiles would be built during that time. This would require an immediately available and adequate supply of crude or synthetic rubber.

It is obvious, therefore, that we face a local transport problem which will last anywhere from three to five years, during which the utmost effort must be made to conserve what we have in the way of transportation facilities and to make it render the greatest possible service of which American ingenuity is capable.

The transit industry has pledged its utmost effort and devotion to the challenging task that it faces. We believe that with reasonable public and governmental coöperation the crisis that confronts us can be met successfully.

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### Don't Pass the Buck on WPB Restrictions

**W**PB has been getting a few complaints from irate utility customers, indicating that some utility personnel—admittedly a very small fraction—has been putting much of the blame for necessary restrictions on the broad shoulders of Uncle Sam. It is probably thoughtlessness or carelessness. Anyway, these customers have somehow gotten the impression that the utility has plenty of materials available and a burning desire to give the customer anything he wants. It is prevented solely by an arbitrary prohibition clamped down by a mean old WPB which takes delight in making life miserable for as many people as possible.

Obviously, this is not so. Yet it would help out the WPB and do the utility no harm if the contact man would explain the real nature and purpose of government restrictions. When the customer understands, he will coöperate cheerfully and respect his utility company for doing its patriotic duty. So don't pass the buck, pleads WPB, unofficially, of course. If you have to blame somebody, blame Hitler, Hirohito, and the deuce spot.



## Wire and Wireless Communication

CONSTANT overburdening of telephone facilities may necessitate a priority system on calls in order to lighten the load, James L. Fly, chairman of the Federal Communications Commission, said on June 29th. A short time later the Senate confirmed the nomination of Mr. Fly for reappointment to the FCC.

Urging public coöperation in making fewer calls, Mr. Fly said that the load on toll calls had jumped an average of 50 per cent throughout the country since January, 1941, and an average of 78 per cent in the major cities. There was, he continued, an even greater increase in defense centers, the load going up 165 per cent in Washington and 245 per cent in Norfolk. In some smaller cities there were even higher increases.

Because expansion of the system would require use of critical war materials, Mr. Fly said that the FCC probably would "take definite steps to lessen demands on the service." He repeated his admonition of June 27th that excessive calls were continually delaying important war messages.

On June 27th the Board of War Communications, headed by Mr. Fly, asked government agencies and telephone companies to see that all nonwar calls be placed during "off-peak" hours. These periods the BWC defined as noon to 2 P. M., 5 P. M. to 7 P. M., and 9 P. M. to 9 A. M. Telegraph messages and mails should be used wherever possible in lieu of telephone calls, Mr. Fly suggested.

IN another step affecting communications, the BWC recommended that the War Production Board stop construction or changes in transmitting facilities or radio stations used for the agriculture service, and in coastal, marine relay, and fixed public service, unless an essential military need or vital public service is involved. Like steps have been taken in connection with standard radio broadcasting facilities.

At the same time the BWC exempted certain fixed public point-to-point radiotelegraph circuits from a closing order issued several weeks ago.

\* \* \* \*

THERE was no indication of early action in the House of Representatives on the telegraph merger bill, recently passed by the Senate. The House Interstate and Foreign Commerce Committee, to which the McFarland-White bill authorizing a merger of Postal Telegraph and Western Union has been referred, is presently busy with the Sanders bill to reorganize the FCC. Chairman Lea of the House body was reported to be attempting to close up hearings on the Sanders bill some time around July 15th, so that his committee could complete action on the bill by the end of the month.

Under such circumstances, the House committee would be free to commence work on the McFarland-White bill around August 1st. It was not expected that the House committee would hold extended hearings, in view of the con-



## PUBLIC UTILITIES FORTNIGHTLY

siderable attention given the matter before the Senate Interstate Commerce Committee. Washington observers believe that unless some unexpected snag developed the House committee might possibly complete action on the bill in time for it to become a law before the end of the summer. No opposition was expected to develop on the floor of the House.

\* \* \* \*

**T**HE War Production Board has accepted the principle of an equipment pool for the broadcasting industry, James L. Fly, chairman of both the Federal Communications Commission and the Board of War Communications, said recently. The BWC recommended such a pool to the WPB in May at the industry's suggestion.

Asked about the status of the request at a press conference, Mr. Fly said that it had been accepted in principle and that work was under way on details of inventorying the supplies available for such pool. He said that there was a heavy turnover of parts in the radio industry and that if it were not for the backlog of equipment, only 27 per cent of the stations would be operating at the end of a year. By coöperative distribution of supplies on hand, he said it was hoped to be able to maintain the industry in operation.

\* \* \* \*

**A**N arbitrator on June 29th decided a dispute at the Floyd Bennett airfield, Brooklyn, New York, in favor of the New York Telephone Company and its employees. The American Federation of Labor's International Brotherhood of Electrical Workers had contended that certain work at the airfield should be done by its members. The controversy developed into a strike which affected 450 workers.

The arbitrator, Dr. Edwin E. Witte of the University of Wisconsin, ruled:

The remainder of the work of placing cable in the main subways on the Floyd Bennett airfield shall be performed by the New York Telephone Company with its own em-

ployees. This includes both the pulling of telephone cable through the man holes on main subways and the burying of such cable in the ground in the part of the work contemplated to be done in that manner.

The telephone company and the union made an agreement in 1917 concerning the allotment of work, but their interpretations of this agreement at the hearing were contradictory. The arbitrator said the project in dispute "differs in essential respects" from ordinary building projects.

"The basic difference," he said, "is that the present dispute involved work on a naval reservation vital to the national safety in time of war. There is no established custom in New York city which has given the work of placing cable in main subways within the property limits of multiple building projects to either the telephone company and its employees, or to the members of Local 3 [IBEW]." He stated further:

In the absence of such a clear custom, the decision reached by the Navy Department allotting the work in question to the telephone company is controlling. It must be presumed that the Navy Department in deciding to let the telephone company own the cable on the Floyd Bennett field and in directing it to install this cable did so with full knowledge that this meant that the company would do this work with its own employees. Whether its decision to this effect was wise or unwise is not for me to judge.

This leads me to the conclusion that there is no valid reason for deciding this case in a way which would in effect nullify the decision reached by the Navy Department.

\* \* \* \*

**A**PPPOINTMENT of Charles F. Kettering, vice president of General Motors Corporation, as consultant to the radio and radar (detector equipment) branch of the War Production Board, was announced on June 26th by Donald M. Nelson, WPB chairman.

Nelson made public part of a letter to Kettering in which he declared that the latter's acceptance of the post "makes me increasingly confident that the job will be well done."

Nelson's letter said the radio and radar program had assumed such "tremendous proportions that I feel it is now vitally



## WIRE AND WIRELESS COMMUNICATION

important to have someone of your outstanding capacity and accomplishment in the scientific world, to whom we can turn from time to time in the difficult task of meeting the requirements of that program."

The radio and radar branch is charged with providing facilities for the production of radio communications, aircraft detectors, and signaling and fire-control equipment.

\* \* \* \*

BEETHOVEN's entire Fifth Symphony recorded on a tiny drum of thread-like wire, no larger than a spool of cotton. The entire works of Shakespeare dramatized with sound effects on a reel no bigger than a home motion picture projection film. Such is the promise of a new device developed by Armour Research Foundation of the Illinois Institute of Technology.

The recorder, weighing only 40 pounds, was recently demonstrated in Chicago where samples of radio programs were recorded and played back with remarkable fidelity. The device operates through the use of a wire thread, no thicker than the human hair. This passes through a magnetic field set up by a small magnet, which corresponds to the cutting head of the ordinary phonograph recorder. There is no mechanical change in the recorded wire, no grooves or notches, except that the molecular quality has been changed by the magnet charges.

The sound potential of the wire can be retained for years or it can be immediately erased by passing the wire through a demagnetized coil, after which it can be used over and over again.

Promotion of the device must await termination of the war. It is estimated that it can be produced in quantities to sell for around \$50. Marvin Camras, twenty-six year old Armour Research staff member, was given chief credit for improving the fidelity of the recording device—the principle of which has been common technical knowledge for some years. The instrument has numerous applications in radio and communications.

The only hitch, so far, seems to be mass production. Each spool of wire must be individually processed—meaning that multiple copies of the same recording can only be obtained either through playing back or through use of a battery of recorders.

\* \* \* \*

THE Board of War Communications (whose name was recently changed from the Defense Communications Board) has issued an order directing telephone and telegraph companies to refrain from abandoning service without notice to the Federal Communications Commission. Specifically, the order prohibits telephone companies, without necessary notice to the FCC, from abandoning (1) any portion of a toll line either interstate or intrastate; (2) any local service in an exchange area; (3) any rural line which is the sole means of service to a community. Similar restrictions are placed upon telegraph companies.

The BWC order does not make any provision for FCC approval of proposed abandonments. It merely requires that notice shall be given to the FCC which, in turn, will notify communications authorities of the Army and Navy.

\* \* \* \*

THE FCC has set August 19, 1942, at Chicago as the date and place for hearings on its recent show-cause order regarding the separation of telephone properties for purposes of interstate regulation. The order directs telephone companies to show cause why the report of a joint staff committee of the FCC and the National Association of Railroad and Utilities Commissioners should not be adopted. The gist of the show-cause order was outlined in PUBLIC UTILITIES FORTNIGHTLY, issue of July 2nd, page 34.

It was expected that E. F. McNaughton, chairman of the staff committee, would appear on behalf of that agency and also as representative of the NARUC to support the adoption of the separation report.



# Financial News and Comment

By OWEN ELY

## *Will SEC and Taxes Force Utilities into Public Ownership?*

**L**ISTED below are the percentages of total generating capacity owned by private utilities as compared with municipal, government, etc., for various years.

During the 1920's the private utilities took over part of the generating capacity of the traction industries, thus increasing their share of total generating capacity; but the proportion of municipal and government ownership also increased one-half (from 4 to 6 per cent). During the next decade municipals continued to gain and Federal power jumped to 6 per cent, while private utilities dropped to 83 per cent. In 1941 Federal power continued to encroach on private utilities and this trend will probably continue over the next year or so as additional Federal projects are completed and distributing facilities are taken over by local authorities from private companies.

The June 19th issue of the *PUR Executive Information Service* describes the recent encroachments of public ownership, due to the governmental acquisitions of private utilities either by condemnation proceedings (as in the Pacific Northwest) or by negotiation (as in TVA, Nebraska, Texas, etc.).

Purchase by a local authority involving about \$35,000,000-\$40,000,000 is pending in Texas; the city of San Antonio is fighting the authority—both want the property, a subsidiary of American Light & Traction.

**T**HERE has been some feeling that the trend toward public ownership might be checked by adverse local votes (as in some sections of the Northwest, San Francisco, etc.), by congressional economy in voting funds, etc. While these trends may help to retard the movement, other factors are currently operating to increase it; namely, (1) the SEC pressure on holding companies to dispose of many of their properties, (2) the fact that municipalities and authorities can issue tax-free bonds and also avoid a heavy tax burden against earnings, and (3) that they can bond the properties up to 100 per cent, instead of 50 per cent as frequently required (by SEC policy) of private utilities.

Thus while most utility executives are probably opposed in principle to municipal ownership, they may find it desirable, in order to solve their own pressing problems, to follow the line of least resistance.

President Sawyer of National Power & Light Company recently suggested through the press that officials of

	1920	1930	1940	1941
Private utilities .....	84%	89%	83%	82%
Tractions, industrial companies, etc. ....	12	5	4	4
Municipal .....	4	5	7	7
Government power districts .....	..	1	6	7
<b>Total .....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>JULY 16, 1942</b>	<b>104</b>			

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## FINANCIAL NEWS AND COMMENT

Birmingham, Alabama, might wish to discuss with him the possibility of purchasing the company's subsidiary, Birmingham Electric Company. Mr. Sawyer disclosed that Commonwealth & Southern had made an offer for the Birmingham property but that it "was so inadequate that it did not merit serious consideration." There is no indication as yet that the city is interested. (See also page 118.)

In the Pacific Northwest public ownership recently received a temporary setback when the joint Senate and House committee deferred further hearings on the Bone bill (to establish a huge authority) until mid-September. (See also page 111.)

budgeted program for the year but this program is, of course, subject to whatever restrictions are imposed by priorities, shortages, and changes of policy, and it is quite possible that the year's total may be substantially smaller.

During the first five months of the year flotations of "new money" securities for the utility industry (including, however, water and telephone companies), as compiled by the *Commercial & Financial Chronicle*, were moderately above the figure for the corresponding period of last year; hence we have assumed that this year's aggregate (for the electric industry) might be somewhat larger than last year's. Figures for the three years 1940-1942 are as follows, in millions of dollars:

### Sources of Construction Expenditures

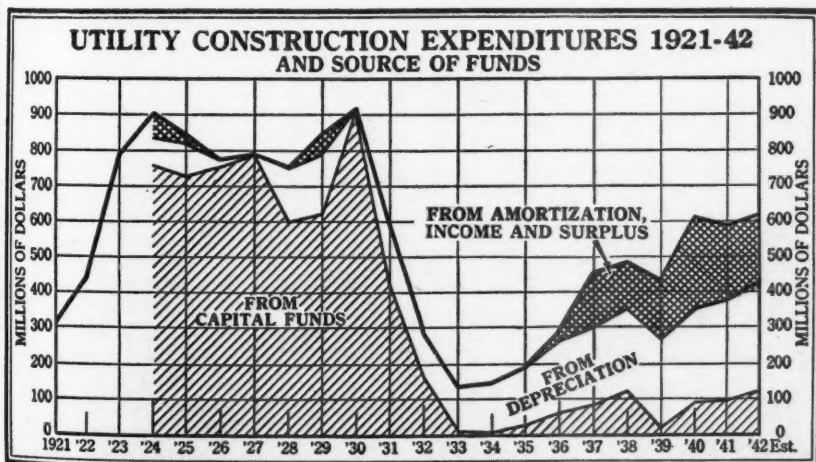
IN the accompanying chart are shown estimated sources of funds for utility construction programs, by years, for 1921-1942. It is, of course, impossible to obtain exact data, since figures are not officially compiled on the basis presented; however, it is believed that the chart presents a satisfactory picture of the general trend.

The 1942 estimates are based on the

	1940	1941	1942
* Capital funds .....	\$92	\$97	\$125
Depreciation .....	260	279	300
Income, surplus, etc.	268	216	197
Total construction	\$620	\$592	\$622

\* Based on "new money" financing.

The sizable amounts appropriated from income and surplus in recent years for property improvements represent money which would otherwise have been available for dividends on common



## PUBLIC UTILITIES FORTNIGHTLY

stocks. While in theory this is money "plowed back" for the future benefit of common stockholders, nevertheless the necessity of curtailing dividends to provide for betterments helps to explain the present low prices for utility equities. While the industry may be piling up hidden equities for stockholders, current dividend rates play an important rôle in stock market prices, and these prices are a determinant in stock financing. Hence, depriving stockholders of dividends helps to keep stock values at low levels, and this in turn may prevent raising of capital funds through issuance of additional stock—a desirable policy if capital ratios are to be kept on a conservative basis. In effect, stockholders are being forced to reinvest potential dividends, instead of obtaining capital funds from old or new stockholders. The present trend is an unhealthy one since it tends to "freeze" the present common stock investment in the utility industry.

### *Can Telephone Maintain Its \$9 Dividend Rate?*

THE American Telephone and Telegraph dividend situation has weakened somewhat since the rather optimistic analysis which appeared in this department in the January 29th issue (pages 166-8). The stock, after declining to 101½, recovered to around 120 but has now lost about half this recovery because of further dividend cuts by subsidiaries. The latest companies taking nibbles out of the parent company's income were Northwestern Bell, which dropped its quarterly dividend rate from \$1.25 to 75 cents; Bell of Pennsylvania, from \$2 to \$1.75; and Diamond State from 50 cents to 42½ cents. Previously the New England subsidiary had dropped from \$1.75 to \$1.50, Illinois from \$2 to \$1.75, and (most important of all) Western Electric had halved its 50-cent payment.

Thus far this year Telephone has lost only about 14 cents a share on its own stock due to the cuts, but of course sec-

ond-half losses will be larger. The next dividend meeting is in mid-August. By that time the House tax bill may be far enough advanced toward final passage to permit directors to gauge its effects on 1942 earnings more accurately. While the bill drafted by the House committee is less unfavorable for the utility industry as a whole than the Morgenthau proposals, nevertheless companies of the size of American Telephone may naturally be adversely affected by the 94 per cent excess profits rate, even though nonconsolidated returns might permit the system to avoid the worst effects of decreased exemptions under the invested capital base.

PRIORITIES might curtail maintenance expenditures of the Bell system, thus increasing net earnings automatically, though it is possible that special reserves might be set up or additional depreciation charged. Since about one-third of gross has in the past been devoted to depreciation and maintenance, some cut in the accrued ratio of these two items to gross revenues would seem feasible.

The latest system figures are for the three months ended February 28th when \$2.66 was earned compared with \$2.74 last year. Mr. Gifford at that time explained that if the Morgenthau proposals had been applied to these earnings only about \$1.66 would have been earned (or for the twelve months ended February 28th about \$6.36).

In the parent company statement for the four months ended April 30th, revenues (largely from long-distance toll messages) increased about 27 per cent. The combined depreciation-maintenance ratio (parent company properties only) dropped from 26.8 per cent (for the 1941 period) to 24.5 per cent. Thus, despite a 75 per cent increase in accrued operating taxes, \$2.61 was earned compared to \$2.63 last year. Since taxes in April were about 107 per cent over last year compared with a gain of 77 per cent in February, it appeared likely that higher tax rates were being accrued than at the time Mr. Gifford's statement was made. Hence these figures appear more favorable than the February statement.

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## FINANCIAL NEWS AND COMMENT

Summarizing, while financial forecasting remains a dismal science, in this commentator's opinion there is still some hope for continuation of the \$9 dividend rate.

### United Gas Corporation

(Ninth article in a series of brief descriptions of natural gas companies)

UNITED Gas Corporation's annual report for 1941 presents some interesting new sidelights on the company and

the industry and is embellished with numerous pictures illustrating the industrial uses of natural gas.

The consolidated income statement might well be taken as a model for other holding company reports. It presents in a 12-column table the income account for each subsidiary (with a breakdown of revenues and deductions), with additional figures for "combined totals," "eliminations and adjustments," and "consolidated totals." System earnings figures for the last quarter of 1941 and 1940 are included (a detail not always made available in utility reports). The

UNITED GAS CORPORATION Incorporated in Delaware				
	Total Outstanding	Owned by		
		Electric Power & Light Corporation	Electric Bond and Share Company	Houston Gas System Company
6% Debentures, United Gas Public Service Company, due 7-1-53	\$38,850,000	—	\$25,000,000	\$1,850,000
Twenty-Year 6% Gold Debentures, United Gas Public Service Co. due 3-1-52	\$ 4,585,000	—	—	\$4,585,000
4% Demand Note	\$25,925,000	—	\$25,925,000	—
Account Payable (4%)	\$ 2,000,000	—	\$ 2,000,000	—
\$7 Preferred Stock—No Par Value	449,822 shs	—	17,310 shs	—
\$7 Second Preferred Stock—No Par Value	884,680 shs	—	—	—
Common Stock—\$1 Par Value	7,818,959 shs	3,750,086 shs	—	8,271,287 shs
Option Warrants equivalent to	4,864,967 shs	3,600,040 shs	151,005 shs	1,113,922 shs

UNITED GAS PIPE LINE COMPANY Incorporated in Delaware			
	Total Outstanding	United Gas Corporation	Public
6% Debentures—due 3-1-52	\$23,000,000	\$23,000,000	—
Capital Stock—No Par Value	100,000 shs	100,000 shs	—
Other Long-Term Debt:			
Bank Loan due 12-30-45	\$800,000.00*	—	\$800,000.00*
Contractual Obligations	\$202,602.88†	—	\$202,602.88†

\*Payable by semi-annual installments.  
†Currently maturing \$100,000.

HOUSTON GULF GAS COMPANY Incorporated in Delaware			
	Total Outstanding	United Gas Corporation	Public
Bank Loan due 8-29-45	\$4,800,000*	—	\$4,800,000*
7% Income Note, due 3-1-45	\$1,300,000	\$1,300,000	—
1% Pfd Stock, Series A	8,060 shs	8,060 shs	—
1% Pfd Stock, Series B	15,000 shs	15,000 shs	—
Common Stock, No Par Value	516,826 shs	516,826 shs	2 shs

\*Payable by semi-annual installments.

DUVAL TEXAS SULPHUR COMPANY Incorporated in Texas			
	Total Outstanding	United Gas Corporation	Public
Capital Stock—No Par Value	500,000 shs	373,557 shs	126,443 shs

UNITED OIL PIPE LINE COMPANY Incorporated in Delaware			
	Total Outstanding	United Gas Corporation	Public
6% Debentures—due 3-1-52	\$40,000,000	\$40,000,000	—
Capital Stock—No Par Value	50,000 shs	50,000 shs	—
Other Long-Term Debt:			
Contractual Obligations	\$211,324.02*	—	\$211,324.02*

\*Currently maturing \$30,111.11.

UNITED OIL PIPE LINE COMPANY Incorporated in Delaware			
	Total Outstanding	United Gas Corporation	Public
6% Note—due 11-1-41	\$175,000	—	\$175,000
Capital Stock—No Par Value	5,000 shs	5,000 shs	—

COMPANIA MEXICANA DE GAS, S. A. Incorporated in Mexico			
	Total Outstanding	United Gas Corporation	Public
10% Income Demand Note	\$200,000	\$200,000	—
Capital Stock—Par Value 100 Pesos	25,494 shs	29,494 shs	6 shs*

\*Qualifying shares in the names of the Directors and Committee.

HOUSTON GAS SECURITIES COMPANY Incorporated in Delaware			
	Total Outstanding	United Gas Corporation	Public
5% Collateral Trust Gold Bonds due 3-1-52	\$3,900,000	—	\$440,000
Capital Stock—No Par Value	45,850 shs	45,850 shs	—

THIRTEEN (13) SUBSIDIARIES FOR THE PURPOSE OF PROTECTING  
CORPORATE NAMES

100% owned by United Gas Corporation



## PUBLIC UTILITIES FORTNIGHTLY

system chart (reproduced on the preceding page) shows the capitalization of each company and the amount of each security owned by the holding company and by the public.

Comprehensive statistics are presented for both natural gas and crude oil properties, and the report includes a list of communities served and a detailed description of "business and property," arranged by functions and by companies.

United Gas Corporation controls one of the largest natural gas systems, with total system assets of about \$309,000,000 and annual revenues of nearly \$49,000,000. Natural gas accounted for about 75 per cent of last year's revenues, crude oil 18 per cent, sulphur 6 per cent (obtained through control of Duval Texas Sulphur Company), and gasoline 1 per cent.

Operations include the production, transportation, and retail distribution of natural gas. The system serves parts of Texas, Louisiana, and Mississippi and

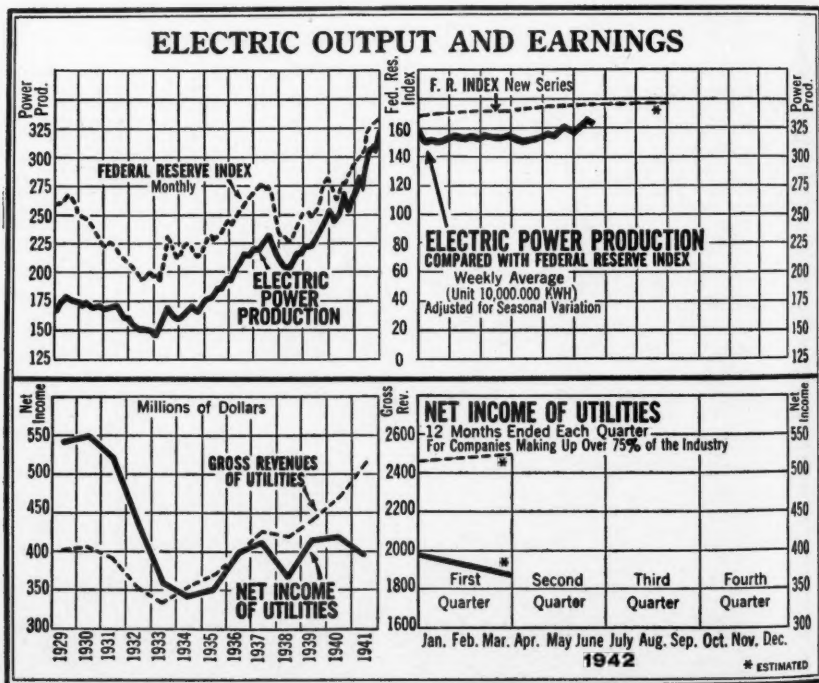
also extends to Mobile (Alabama), Pensacola (Florida), and Monterey (Mexico).

As indicated in the accompanying table, which reflects the record of the \$7 first preferred stock, earnings in 1941 showed a substantial gain over 1940.

While warm weather in early 1941 curtailed residential and commercial use of gas, this was more than offset by increased industrial sales, traceable directly or indirectly to the war effort, including the extension of service to new Army posts and naval stations.

In the first quarter of 1942 sales gained 15 per cent over last year and oil deliveries increased sharply (due to heavy production in the Tinsley field in Mississippi, discovered about a year ago).

Consolidated net income gained as follows (000 omitted):





## FINANCIAL NEWS AND COMMENT

### UNITED GAS \$7 PREFERRED STOCK

Year	Earned Per Share	Dividends Paid	Price Range	
			High	Low
1941 .....	\$14.34	\$9.00	123	106½
1940 .....	12.26	9.00	113½	87½
1939 .....	11.18	8.00	94	74
1938 .....	11.98	7.00	100	69
1937 .....	26.63	7.00	124	78
1936 .....	25.90	3.50	120½	81½
1935 .....	10.98	Nil	84	35
1934 .....	10.09	Nil	45½	17
1933 .....	5.04	0.25	45	13
1932 .....	12.38	6.12½	55	8½



	1942	1941	Percentage Increase
January ..	\$7,107	\$5,182	38%
February..	7,366	4,576	60%
March ...	7,146	4,693	52%

For the twelve months ended March 31st consolidated net earnings amounted to \$15.89 a share on the first preferred stock compared with \$10.43 in the previous period, a gain of over 50 per cent; "company only" earnings were \$12.10, compared with \$8.11.

The company has continued its policy in recent years of paying the regular \$7 dividend on the first preferred stock, plus \$2 extra per annum. Arrears now amount to about \$19.13 on the first preferred.

Last year the company registered with the SEC \$75,000,000 bonds, which it arranged to sell to fourteen insurance companies. The proposed financing was part of a broad program designed to streamline the company's capitalization, and readjust its debts to Electric Bond and Share. After the sale contracts had been extended several times, the financing had to be temporarily abandoned due to the failure of the SEC to approve the program as a whole. A final promising attempt to work out a compromise with the SEC had to be abandoned because of, it

was reported, threatened litigation by a stockholder of Electric Bond and Share.

ON June 19th the appellate division of New York Supreme Court reversed a supreme court ruling and dismissed a suit against Electric Bond and Share Company and directors of United Gas Corporation, brought by a common stockholder of United Gas, charging misuse of United Gas assets through payment of \$18,000,000 accumulated preferred dividends instead of using the funds to pay off part of a \$28,000,000 loan made by Electric Bond and Share to United Gas.

The preferred stock, which advanced early this year to 126½ on expectations that holders might receive about \$130 (the call price of \$110 plus arrears), declined to 94½ when the financing plan met with obstacles, and is currently around 107½ on the Curb.

The company's second preferred stock is entirely owned by Electric Power & Light. Of the 7,108,959 shares of common stock, about 48 per cent is owned by Electric Power & Light, 10 per cent by Electric Bond and Share, and 42 per cent by the public; it is currently quoted around ¾.

**Q** "... in the days ahead, no one is going to be interested in our EFFORT, but only in our production."

—J. S. KNOWLSON,  
Director of Industry Operation, War Production Board.



# What Others Think

## War Poses Engineering Problems for Electric Manufacturers



AMERICA's war effort has pushed the production of the electric manufacturing industry to an all-time record high, it was reported by David C. Prince, president of the American Institute of Electrical Engineers and vice president of General Electric Company, on the eve of the institute's fifty-eighth annual summer convention which opened in Chicago on June 22nd. He said:

American engineers, especially electrical engineers, today have the gravest responsibility in history. They must help win the war. . . . The margin of victory may be the fact that the United States alone has more electrical power for translation into weapons than all the Axis nations and their vassal states. Electrical engineers are seeing to it that this superiority not only is maintained, but increased.

Besides powering all war production, the electrical manufacturers and their engineers are producing the greatest variety of military devices to come from any one industry. Some communication and detecting devices are fantastic in their complexity.

This war is requiring a new and advanced type of engineering. . . . All of this activity places a greater burden than ever before on the electrical engineers required to design and direct the manufacture of these complicated devices.

Most of our effort today is devoted to winning the war. But the electrical industry also is giving thought to the problem of winning peace. We know that there is no limit to the extent by which production can be increased provided we continue to use more and more electric power and let it do the work for us.

THE problem of mass production of such intricate items as electric turbines has resulted in new chapters being written in American industrial history. Discussing this phase of the subject, another General Electric vice president, Chester H. Lang, told the Edison Electric Institute meeting in New York city on June 11th that it took "cold, clammy fear striking at the heart of the nation

to teach it that it was only a beginner in the practice of the skill for which it seemingly has a God-given aptitude—mass production."

He said one has to get out and visit the General Electrics, the Westinghouses, the Boeings, the Willow Runs, the Warner & Swaseys, and the shipyards to see the miracle of mass production that is going on. Mr. Lang stated:

Most other nations, even before the war, envied our ability to mass produce at low cost (despite high wages) canned soups, automobiles, electric kitchens, and kiddie cars, but now, in our desperate plight, we have learned that we can extend our mass production methods to tanks, locomotives, flying fortresses, ships, and finally to that Great Individualist of the machine age—the steam turbine.

One factor that has made mass production of heavy, heretofore tailor-made, apparatus possible has been concentration on a few standard ratings—standardization unwillingly accepted under the stinging lash of time.

Naively almost, we have been astounded at the savings in time and cost that have resulted. We built a shiny new plant somewhere west of the Alleghenies with a capacity to produce nine 30,000-horsepower ship-propulsion turbines a month. We whistled bravely, knocked on wood, and kept our fingers crossed because at Schenectady where we've always built large turbines—practically no two of them alike—we have never averaged more than 3 or 4 units of comparable size per month.

Are we going to meet that seemingly blue-sky schedule of 9 units per month? No, we're going to exceed it by producing at least 15—thanks to duplicate manufacture of a standardized design. This may seem like the last place to divulge costs, but inevitably such a program yields appreciably lower costs, despite high starting expenses and the inefficiencies that must be accepted under rapid acceleration. As taxpayers you will benefit by lower prices to the Navy. The same experience is being encountered in our production of other highly technical war materials and I haven't the slightest doubt but that this is true throughout the electrical manufacturing industry. Again as General

## WHAT OTHERS THINK

Knudsen said, "We didn't know our own strength."

ANOTHER thing we have learned, according to Mr. Lang, is that standardization puts no ceiling on development. Conversely, richer dividends and higher standards of quality and performance can be expected, "because of the ability to concentrate engineering talent on designs that offer the greatest potentialities for progress." But what about peace-time production?

Mr. Lang thinks that if we can make such saving by war production we can do the same after the war is over. He made the following statement to the Edison Electric Institute:

As an industry, you make the most standardized product in the world—the kilowatt hour. And as an industry, you have alertly furthered the advancement of standards—meters, distribution transformers, lamps, etc. But shouldn't you, and we, in the light of what we are now learning, vigorously explore the possibilities of extending this standardization to heavy apparatus?

All wars teach lessons and advance technology—at great cost, to be sure. We shall have failed in our duty if we do not make the most of the helpful lessons this one is teaching us. To us in this industry one lesson can be this: That there is no obstacle other than habit or tradition that stands in either your way or ours to block the extension of standardized manufacture, with all of its resulting advantages, to the substation, the transmission system—yes, even to the generating station, and in the broader sense to the cost of supplying electricity.

## Ickes *versus* Robinson Debate Features Bone Bill Hearings

CONFLICTING views were expressed on the proposed Bone bill to set up a Columbia Power Authority to acquire all private power properties in Oregon and Washington and resell them to public power bodies in combination with Bonneville and Grand Coulee operations. These opinions were presented to the joint subcommittee of the Senate Committee on Commerce and the House Committee on Rivers and Harbors. Hearings were held in Washington on June 19th and 20th.

Opposed to the bill was Kinsey M. Robinson, president of the Washington Water Power Company of Spokane. Proponent of the bill was Secretary of Interior Ickes, who declared that Grand Coulee and Bonneville dams would become a "monument of governmental stupidity" unless power generated by the huge projects was distributed through public agencies.

Under terms of the bill introduced by Senator Bone of Washington, as interpreted by Mr. Robinson, the Federal government not only would be empowered to take over power companies in the states of Washington and Oregon, but might even take over the Utah Power

& Light Company, the Montana Power Company, and the Idaho Power Company—all of which are now being interconnected and operated as a single system. This interpretation was not challenged by Senator Bone, who was present.

CONTENDING that the Bone bill is not an emergency war measure, as pretended, Mr. Robinson said its enactment "would not add one kilowatt hour to the war effort, would not make possible the production of one more airplane, or add another ounce of aluminum or magnesium, copper, or zinc than can be produced under the coordinated operation now in operation in the Bonneville-Grand Coulee area."

Mr. Robinson said the bill authorized a new method of condemnation which leaves the private power company at the mercy of the Columbia Power Administrator. He declared:

The Federal condemnation procedure contemplated in this bill is nothing less than a firing squad method of seizure. Under it the administrator could start condemnation proceedings, file his appraisal of the property, and secure a decree of taking. Immediately title would vest in the government, even the

## PUBLIC UTILITIES FORTNIGHTLY

books, accounts, and employees of the company. Later, when the company went into court to secure a fair valuation on its property, the government would have all the company's evidence.

It is a long step towards complete nationalization of American business enterprise should the government make use of this power of condemnation to take a going concern, such as ours, with the avowed purpose of keeping the physical property of the company in the same kind of service it has been devoted to previously.

The bill is so drawn, he showed, that the government could wreck a company by condemning only its vital links, or by taking its transmission lines, leaving only the generating plants with no means of getting their power to market. Moreover, once he gets the property, the administrator can fix the retail price of power, and there is no appeal from his decision.

**M**R. Robinson declared there was no question the government, in taking his company, could take its lines, which now serve most of north Idaho, along with its Washington properties, and added:

The Washington Water Power Company, the Montana Power Company, the Utah Power & Light Company, and the Idaho Power Company, serving areas outside the boundaries of Washington and Oregon, are now operated as an integrated, interconnected system having quite large storage reservoirs and backbone transmission systems for the transfer of substantial quantities of power from one point to another throughout the entire area.

If it were true that the government needed this legislation to secure unified control over the generation and transmission of power in the area, then they can well say tomorrow that they need the Montana-Utah-Idaho companies as a part of their system so that full utilization of reservoirs could be made.

The power company executive said that 90 per cent of the revenue of his company and over 81 per cent of its population were in areas where public ownership had been defeated or where no elections had been held.

He also said the city of Spokane, served by his company, used two and a half times as much electricity as the average for the country and paid for it nearly

25 per cent less than the average rate of similar service in the Tennessee Valley Authority region.

Senator Bone, Democrat of Washington, co-author of the bills, asked how the Spokane rate compared with that in Tacoma, which has publicly owned power. Robinson replied that Tacoma's rate was 1.2 cents a kilowatt hours compared with 1.5 cents in Spokane, but he added Tacoma was particularly benefited by ample water supply. He observed, however, that Spokane's rate of growth had been greater than Tacoma's.

**R**OBINSON assailed a Federal condemnation provision in the bills under which, he explained, a public power agency could take over property of a private company by filing a declaration of intent in Federal court and deposit with the court funds to cover an appraised value of the property. Robinson asserted:

Under this proposal the administrator would only have to decide that he wanted a particular electric company out of business and he could start condemnation proceedings even though a large majority of the people in the area were not interested in purchasing the distribution system from him.

Even though Spokane did not want municipal ownership, the properties could be sold to the Spokane county public utility district, an REA coöperative, or a new type of coöperative or nonprofit corporation that might be formed by a few job-hungry power politicians.

The properties of one city could be sold to another, rural areas put under city control or vice versa, all in the sole discretion of the administration without let or hindrance of the wishes of the people.

On June 19th, the day after Mr. Robinson's testimony, Secretary Ickes appeared before the subcommittee, together with Bonneville Administrator Paul J. Raver, who also gave brief testimony. Ickes said private power companies fought the building of Bonneville and Grand Coulee, but were "friendly" now and trying to share in the benefits through distribution of the power through their systems.

"They say why not turn over the power to us to make a profit," Ickes de-

## WHAT OTHERS THINK



Courtesy, *The New Yorker*

### PIPE SHORTAGE IS CREATING A FEW OPERATING PROBLEMS FOR THE CITY WATERWORKS

clared. "I would rather that the dams never be built than to become a monument to governmental stupidity."

The Interior Secretary said acquisition of the private power companies by a public authority was "inevitable." He said Bonneville and Grand Coulee were the result of "dreams" of the Northwest and "they now dream and work so that people, and not just a few private companies, may share the full benefits of these developments." Mr. Ickes stated:

They got Bonneville and Grand Coulee built, and I think it is inevitable that they will purchase the privately owned distribution facilities.

They may have to do it the bruising, expensive, wasteful way of individual condemnation suits and a multitude of hard, ungentlemanly fights.

Or if the Federal government will help them and itself, they will accomplish their objective in the clear-cut, economical way provided by this bill. But they will do it one way or the other.

**A**SKED by Chairman Overton, Democrat of Louisiana, to comment on charges that public acquisition of the private utilities would be a step toward socialism, Ickes replied that holding companies had "pointed the way" to socialism in the power industry. "Only the government is strong enough to cope with these monopolistic enterprises," he asserted. "The government is in the driver's seat now. You can call it socialism if you want to."

Ickes said there never would have been any need for public power if the



## PUBLIC UTILITIES FORTNIGHTLY

power companies had kept out of politics. "They are penitent now, but it is a case of repentance coming too late."

Representative Dondero, Republican of Michigan, a committee member, asked Ickes if the power theory for the Pacific Northwest applied to all natural resources.

"Not by any means," the Secretary replied.

Dondero further asked if the government was not partly responsible for faults of private power companies by permitting existence of the faults.

"The fault lies on both sides," Ickes replied. "The government should have stepped in before it did."

"Don't state commissions regulate rates?" Dondero asked.

"Well, the commission in my own state of Illinois isn't worth that," Ickes responded, snapping his fingers.

Senator Burton, Republican of Ohio, asked Ickes what he thought of a 3-man board for the proposed administration instead of a single administrator as provided in the bill.

"If you have a job, an administrative job to do, you need one man," the Secretary said. "I don't favor a debating society when it comes to administration. In a board, you have one strong man who dominates. TVA has an example. They had a row, a terrific row. If you want three men at \$10,000, why not give one man \$30,000? It's a \$30,000 job."

Ickes said a board would "put the whole thing in politics."

ASKED if the legislation would not interfere with free enterprise, Ickes said he wished the power companies were as "interested in free government as free enterprise." He said the Northwest public power proposal "does not establish new policy, nor does it prescribe a Federal program at all, in the usual sense. It merely provides a means for carrying out a policy which was conceived, born, and brought to full life in the Pacific Northwest."

He said the bill provided for economical "transition from private to public ownership" of power distribution systems in Oregon and Washington. Financing, he said, would be "on a pay-as-you-go" basis, without burdening the Federal Treasury. The administration would be authorized to issue revenue bonds, to be amortized in forty years, to acquire the eight companies involved.

Ickes also said the legislation provided an "orderly means" for repaying the Federal government's investment in Bonneville and Grand Coulee. He explained, however, power would be called upon only to pay the proportionate share of the cost to power, except for a small subsidy for irrigation benefits.

Incidentally, on June 19th from Seattle, Washington, came an Associated Press dispatch quoting President Frank McLaughlin to the effect that a public agency seeking to buy Puget Sound Power & Light Company, largest Pacific Northwest utility, should pay approximately \$158,510,000.

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## Teach the Boss Telephone Manners?

EMPLOYEES, as a rule, have better and more efficient telephone manners than employers, Frank Craddock, chief of the training section, Connecticut Unemployment Compensation Department, said recently.

Basing his statements on a recent survey conducted personally within his own department and in other state divisions, Mr. Craddock said that "clarity, cour-

tesy, and tact in telephone handling" is not always part of the employer's make-up. On the basis of his study, Mr. Craddock has issued a manual of instructions on the use of the telephone, and urges that, "as a general efficiency effort," all telephone users, private, public, and commercial, review their "telephone manners."

"The telephone," Mr. Craddock



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"WHICH ONE OF YOU HUNG UP ON ME?"

pointed out, "has become an integral part in the war effort. Just as there are shortages of gasoline, sugar, and automobile tires, so there is a shortage of time." Asserting that the telephone is a great time-saver, "if used correctly and efficiently," Mr. Craddock referred to the telephone as a "war industry in itself."

"Let it be said," Mr. Craddock asserted, "that secretarial training is apparently good training in telephone courtesy, for secretaries are invariably superior to their superiors in their method of response."

**P**OINTING out that the telephone "distinctly, or in some cases, indistinctly, reflects the user's personality," Mr. Craddock said that the telephone should

be considered as a useful tool and used accordingly. Among the faults Mr. Craddock has found with telephone users are reluctance to answer promptly, indistinct diction, obvious boredom, preoccupation or disinterestedness, use of slang and clichés, and unwarranted curttness.

"Thoughtlessness rather than deliberate ill-temper or discourtesy," Mr. Craddock said, "is unquestionably at the root of most misuse of the telephone." Citing a specific instance experienced by himself while conducting his survey, Mr. Craddock said:

I called up a person, the head of a department. After waiting patiently while the phone rang on the other side of the wire, a drawing, disinterested voice said, "hello" and then continued, *solto voce*, another

## PUBLIC UTILITIES FORTNIGHTLY

conversation with an office associate. This conversation was continued for several seconds before the business of the call could be transacted.

During his survey, Mr. Craddock found that first impressions were "decidedly discouraging," since almost 50 per cent of the responses were the ambiguous "hello." This form of telephonic greeting, he added, leaves the caller nowhere and forces him to inquire whether he has reached the proper telephone connection, resulting in a waste of time.

Mr. Craddock suggested that for the duration of the national emergency at least, telephone users identify themselves

as promptly as possible and get to the business in hand.

Asserting that the telephone can either be "soothing syrup or dynamite, depending on how it is used," Mr. Craddock appealed to all state department employees and employers, as well as all other users of the telephone, to use discretion in their dealings with other people on the telephone, and to waste as little time as possible in making inquiries and responses clear. "With telephone wires crowded nowadays as never before with important and vital messages, it is no more than patriotic to treat the facility with respect and courtesy," Mr. Craddock said.

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## A Technique for Training Employees

**L**AST year about this time the McGraw-Hill Book Company released a book entitled "How to Supervise People," by Alfred M. Cooper, well known for his work as educational director of the Los Angeles Department of Water and Power and various private industries. (Mr. Cooper has also written extensively on matters of industrial relations for numerous publications, including this magazine.)

This 1941 volume, aside from certain chapters dealing with the technique of hiring employees, laid principal stress on the duty of the boss. Now comes a companion volume, also published by McGraw-Hill, dealing with the technique of training the employee or, in other words, outlining the duty of the employee under an effective system of supervision. Mr. Cooper believes that systematic employee training will produce better results than haphazard improvisations, or no method at all. Further, he claims that original, tested methods outlined in his volume will be more effective than older training procedure.

Mr. Cooper is a special advocate of the "rehearsed conference method." The

book furnishes complete course outline, lessons, plans, standard practice material, and detailed directions for the installation and operation of any type of employee training applicable to any kind of business. All forms of vestibule apprenticeship and operating training are treated—especially timely in this emergency period of man power shortage.

As an appendix, Mr. Cooper's book carries some rather original and extensive practice material for conference leaders and for holding conferences. Indeed, the appendix with the index takes up nearly a third of the book.

In his plan for "the first conference" on the subject of public relations training, the author tells what should be discussed and how it should be discussed for every hour of the meeting. There are suggestions for "assignments," "dramatization," and so forth. All of this should make the book a handy addition to the literary tool kit of any official whose duties bring him into contact with any phase of employee training.

**EMPLOYEE TRAINING.** By Alfred M. Cooper. McGraw-Hill Book Company, Inc., New York, N. Y. 1942. Price \$2.50. 311 pp.

# The March of Events

## Krug Fears Water Shortage

J. A. KRUG, head of the War Production Board's power branch, warned last month that many American cities may experience a shortage of water before the war ends. The reason, he said, would be that war industries must have first call on critical materials needed for maintenance of water plants.

Krug discussed war-time problems of the water supply industry at the closing session of the American Water Works Association's annual meeting in Chicago, Illinois. He disclosed for the first time two new WPB regulations affecting the water industry which would become effective July 1st.

One new ruling prohibits construction of extensions to any new customer, except where the premises already are piped or the foundation started by July 1st. The exception is defense housing projects. The other gives utilities an A-1-c rating on emergency repair items, compared with ratings of A-2 and A-5 available to utilities under present priorities orders.

Elaborating on his remarks in an interview following his talk, Krug said that where water shortages develop voluntary restrictions will be tried first, but if local conservation attempts fail the WPB had adequate authority to order certain uses of water eliminated or curtailed.

So far, he told reporters, the WPB had had no occasion to use this authority. Shortages have developed in areas of rapid war-time population expansion, but the affected cities have successfully dealt with the problems through voluntary curtailments. Norfolk, Virginia, for example, has a "rather serious problem," as has San Diego, California, he said.

The nation's water systems, Krug said in his address, are as efficient and economical as the world has ever seen. That is basic common sense, he continued, in normal times, but now the basic question is one of economy of materials.

"You must redesign your equipment to keep uses of critical materials at a minimum," he asserted. "Certainly that means cutting off new lines where reduction in use can solve the problem. You are justified in taking chances with your water system, because these critical materials are worth five or ten times as much to the war effort now as they will be worth later."

Krug said that in many cases where water shortages develop a "really effective job of curtailing use will meet the situation." He



urged water company officials to study the needs and use of water in defense plants, and show executives of these plants how to save water through more efficient use. To illustrate, he said it has been found that test cells in aircraft engine plants can turn back almost as much power as they use.

Extension of utility services, including electricity, gas, and water, to war housing projects will be expedited under a new procedure announced on June 23rd by the War Production Board for assigning preference ratings for these facilities.

The extensions approved by WPB under the new procedure will be assigned the same preference ratings for materials as are assigned the housing projects themselves.

The WPB announced that applications for utility extensions will be handled in the field through the Federal Housing Administration, thus decentralizing this procedure.

Other changes made in the P-46 order include: Material required for utility extensions to all projects rated A-5 or better is assigned the same rating as is assigned to the project itself. The order, as amended, which was to have expired June 30, 1942, has been extended to September 30, 1942.

## Asks Conventions Be Put Off

A REQUEST that all state and county fairs, meetings, conventions, and group tours, which are not closely related to the war effort, be deferred during the war was made last month by Joseph B. Eastman, director of defense transportation.

Mr. Eastman said that the volume of passenger traffic on railroad and bus lines is rising steadily and is now about 50 per cent greater than last year. He pointed out that troop movements have been heavy and will be much heavier and the volume of necessary business travel also is rising.

Drastic controls over travel on busses and railroads will be imposed by the ODT if the public does not voluntarily restrict unessential travel, Mr. Eastman indicated.

In addition to asking for deferment of fairs and conventions, he suggested that vacation travel should be spread throughout the year through staggering of vacations and by encouraging workers to leave and return from vacations during the middle of the week. He asked that all pleasure travel, except for vacations, be avoided.

## PUBLIC UTILITIES FORTNIGHTLY

### Utility Unions Map Federation

**A**NATIONAL confederation of independent unions embracing utility workers is being organized in the country's electric power industry to combat the American Federation of Labor and Congress of Industrial Organizations, it was reported recently.

The aims of the organization are understood to be twofold: First, to form a connecting link among the scores of independent organizations represented in the country's electric power network, and, second, to counteract moves being made by the two big branches of organized labor.

George L. Mueller, president of the 6,000 members of the independent association of Duquesne Light Company, of Pittsburgh, employees and one of the leaders behind the movement, said a meeting was to be held in July, probably in Washington, at which a provisional organization would be set up.

About fifteen independent unions, with a combined membership of 100,000, would be

represented at the organization meeting, he said.

### TVA Bill Goes to President

**T**HE Senate on June 22nd formally receded from an amendment designed to strip the Tennessee Valley Authority of its revolving fund, and sent the \$2,090,885,128 Independent Offices Appropriation Bill containing TVA funds to the White House.

The fight over the Senate amendment, proposed by Senator McKellar, Democrat of Tennessee, to alter TVA's financial procedure, ended the previous week when Senate conferees agreed to recommend abandonment of it, to permit early enactment of the appropriations bill.

Senator McKellar told interviewers, however, that he would take other action soon in his effort to confine TVA expenditures to appropriations voted by Congress. At present the authority may use receipts from the sale of power in its operations.

## Alabama

### Utility Offered for Sale

**T**HE movement for public utility ownership in Birmingham, which began with an attempt to sell the Birmingham Electric Company to the city for approximately \$28,000,000, recently was widened to include the county and city of Bessemer as prospective purchasers of the system.

It was learned definitely that a certain stock broker, representing a group which hopes to make between \$500,000 and \$600,000 in commissions out of such sale, had approached members of the county commission in the hope of persuading the county to acquire the light, street railway, and bus utility and operate it.

Mayor Jap Bryant, who was instrumental in obtaining the present TVA system in Bessemer, said the matter had been discussed with him and that he was in a "receptive mood," although he added that municipality would be interested primarily in purchasing that part of Birmingham Electric properties in the Bessemer vicinity. In fact, he said, Bessemer had tried to do this before.

Since the people of Birmingham voted decisively in 1933 to reject municipal ownership proposals for operation of both the electric and water systems, laws have been enacted to permit a municipality or the county to acquire and operate a public utility without a referendum, it was pointed out.

## Arkansas

### Contributions Ruled Invalid

**T**HE city of Little Rock can legally make a donation to the Community Chest but the Little Rock municipal waterworks cannot, the state supreme court ruled last month.

The opinion held that the waterworks could not contribute \$1,350 to the agency, as pledged, because such an act would impair the obligation of its contract with bondholders. A clause of the trust indenture provided that no funds derived from the waterworks could be used for any purpose other than operation, maintenance, and payment of bonds. A clause would permit a rate reduction under certain condi-

tions but this point was not involved in the case.

Such was the law when the contract was made with bondholders, the court said, and the legislature had no right to change it until outstanding bonds are retired. The 1941 legislature, by passage of Act No. 288, authorized city waterworks to make donations to a Community Chest, but that part of the act was held invalid.

### Acquires Generating Plant

**T**HE Arkansas Power & Light Company has acquired the steam-operated electric

## THE MARCH OF EVENTS

generating plant at Memphis, with a total capacity of 55,000 kilowatts per hour, from the Memphis Generating Company, and was to take over June 28th, C. S. Lynch, executive vice president of the company, disclosed recently.

The Tennessee Valley Authority has contracted to purchase 20,000 kilowatts per hour of the plant's generating capacity, and the remaining 35,000 kilowatts per hour will be used by the Arkansas Company in its own system.

When AP&L takes over the big Memphis plant, it will reduce the amount of power purchases from the TVA from 40,000 to 10,000 kilowatts per hour of firm power and 5,000 kilowatts per hour of peaking power, Mr. Lynch said. This will mean a net gain for the Arkansas Company of 10,000 kilowatts per hour of capacity. The Arkansas Company is interconnected with the TVA at the South Memphis substation.

### Sour Gas Fields to Close

OIL operators were expected to accede unanimously to an Office of Petroleum Coordination request that sour gas fields of McKamie, Dorcheat, and Macedonia fields be shut down until there is a direct need for the sweetened and processed product by war industries.

D. E. Buchanan, chief of the natural gas and gasoline section of the OPC, has written to operators in the three sour gas fields suggesting that he would be happy to report to the coordinator that the commission and operators have, on their own initiative, taken what "appears to be a desirable action in shutting down the fields."

Action on the question of shutting down the sour gas wells and opening up, through dual completion methods, the Cotton Valley sand in these fields, was discussed at a meeting of the Arkansas Oil and Gas Commission at Magnolia late last month.

### Would Coordinate Lines

THE power systems of the Arkansas Power & Light Company and the Ark-La Electric Coöperative might be coöordinated to save power, material, and man power during the emergency if an agreement can be reached under which the private company could lease the coöperative's new line from the Grand River dam in Oklahoma to the aluminum plant at Lake Catherine, C. Hamilton Moses, president of the AP&L, suggested in a letter to Thomas B. Fitzhugh, Ark-La Electric's attorney.

"We certainly feel no obligation to underwrite what might be a questionable loan contracted by someone else and are not offering to do so," the power company official wrote.

The proposed program follows in brief:

The Arkansas Power & Light Company, or other southwestern power pool companies, would take over Ark-La's arrangements with the Federal Works Agency and operate the Ark-La line as a part of the power supply pool.

The Ark-La line would be operated at 110,000 volts instead of 154,000 volts, eliminating many transformers.

The AP&L would take over the resultant reduced debt of the line to the Rural Electrification Administration on a lease-purchase basis.

## California

### Plant Assured Power

DELIVERY of vast quantities of electric energy required by the United States for aluminum production in Los Angeles was assured recently when the Los Angeles Board of Water and Power Commissioners approved a 5-year contract with the Federal Defense Plant Corporation.

The bureau of power and light will furnish the power to operate the huge aluminum reduction plant now under construction.

Negotiations for power to produce the vital war metal began one year ago with the government's request for 50,000 kilowatts of energy. In September the amount was increased to 85,000 and later to 170,000 kilowatts. Meanwhile, the projected plant capacity was increased from 30,000,000 pounds to 150,000,000 pounds a year.

Extensive water storage at Hoover dam, assuring quantities of secondary power, and the

reduction of power plant capacity normally held in reserve for reliability of service make it certain that the aluminum requirements will be met.

The recently signed contract provides for a wholesale rate of approximately 3.75 mills per kilowatt hour which, it was stated, is sufficient to cover power bureau costs and to show in addition a substantial net return.

### Raker Act Enforcement Delayed

FEDERAL Judge Roche last month extended to July 1, 1943, a moratorium on enforcement of the Raker Act, in violation of which act the city of San Francisco has been selling its Hetch Hetchy power to a private corporation, the Pacific Gas and Electric Company, for resale.

Part of the stipulation on which this extension was granted was that the city furnish a constant current of 83,000 kilowatts to a



## PUBLIC UTILITIES FORTNIGHTLY

3-unit aluminum plant to be constructed at Riverbank (near Modesto) that will produce 96,000,000 pounds of metal for war purposes when the third unit has been completed in August of next year.

U. S. Attorney Frank Hennessy told the court he had been advised by U. S. Attorney General Francis Biddle that sale of Hetch Hetchy power for this purpose is not in viola-

tion of the Raker Act. Judge Roche warned, however, that after the war it is not likely the city will be granted any further reprieve from the edict of the U. S. Supreme Court that it is violating the Raker Act and must desist.

The electorate has consistently turned down bond issue proposals for the acquisition of a system for the distribution of Hetch Hetchy power by the city itself.

## Connecticut

### Gas Rate Increase

THE Hartford Gas Company on June 24th called upon its customers to assume some of the increase in its "uncontrollable costs" and announced that it would increase its rates in July.

Norman B. Bertolette, president, said the increase would result in a fuel adjustment charge of 5.4 cents a thousand cubic feet of gas and would be applicable to all bills. The fuel adjustment charge is a plan approved by the state public utilities commission. (See, also, page 125.)

"Rising costs have affected all of us for

some time," Mr. Bertolette said. "In addition to mounting labor and tax costs, our company has been forced to meet the increases in prices for coal and oil used in making gas." He said rate schedules, as filed with the public utilities commission, "provide for a fuel adjustment amounting to one cent per thousand cubic feet of gas for each 25-cent increase in the cost of fuel above \$5.60 per gross ton of coal or its equivalent.

"For nearly two years the price of fuel has been above this amount, but up to this time we have absorbed these rising fuel costs except for those larger customers whose use exceeds 10,000 cubic feet per month."

## District of Columbia

### Revolt on Taxi Fares

A SUCCESSFUL "strike" against commission regulation. Such seems to be the precedent-breaking result of the recent taxicab snarl in the national capital. Most of the city's 5,000 drivers refused to operate under rates decreed by the District of Columbia Public Utilities Commission. Transportation chaos and public indignation followed. A congressional committee had to take a hand—and the commission backed down, temporarily at least.

Taximen returned to work under an agreement allowing them to operate under either new or old rates pending congressional investigation. The House District Committee thus, in effect, superseded the regulatory authority of the District commission.

Chairman Hankin of the District commission was the focal point of the taxicab revolt. He personally devised a new schedule of taxicab fares which a majority of the drivers refused to put into effect because they said it

was too complicated. The local press was also generally critical of Hankin's plan, which consisted of a series of zones and subzones and which one newspaper editorially charged would result in necessity for "a parley between the cab driver and the passenger at the end of each trip."

However, Chairman Hankin's two colleagues, with whom he has differed on other regulatory matters, apparently acquiesced in the new set-up.

Chairman Hankin, recently appointed by President Roosevelt, had previously attracted attention in regulatory circles with the announcement of a plan to reexamine the question of retaining the so-called Washington plan for gas and electric rates in the nation's capital. This well-known and generally reputed successful experiment in quasi automatic regulation was featured by a sliding-scale, profit-sharing agreement which has resulted in an annual reduction in electric rates in Washington, D. C., from 1924 to the present year.

## Illinois

### Fare Increase Denied

THE petition of the elevated lines for an increase from 10 to 12 cents in fares was  
JULY 16, 1942

denied last month in a final order entered by the state commerce commission after eleven months of hearings.

The commission ruling, announced by Chair-



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man John D. Biggs, placed the fair value of the "L" properties at \$36,000,000, or less than half the \$84,000,000 claimed by the company as the lowest possible rate base. Attorneys for the "L" lines contended the latter figure represented the original cost of the properties and that it would cost \$120,000,000 to reproduce the "L" system as it is now.

The company's plea for 20 per cent increases in children's and suburban fares and weekly passes also was denied in the commission ruling.

The commission took no action on the elevated road's request for a boost from 10 to 13 cents in intercompany rides between the "L" and street car and bus routes.

### Rate Cuts Delayed

**T**HE proposal of Peoples Gas Light & Coke Company to pass along to its customers in rate cuts approximately half of the annual saving of \$2,400,000 accruing to it from the reduction in natural gas prices charged by the Natural Gas Pipeline Company has been delayed by action of the state commerce commission, which ordered hearings to determine whether or not the gas company should pass along a larger part of its savings.

Peoples Gas, in filing a new rate schedule, contended that it should be allowed to retain half of its saving in order to make a fair return on its invested capital.

## Indiana

### Gas Case Appeal Filed

**A**N appeal was filed with the Indiana Supreme Court last month from the decision of Clay County Circuit Court in which Judge John W. Baumunk held invalid a public service commission order approving the transfer of the Indiana Gas Utilities Company property to the Terre Haute Gas Corporation. The ap-

peal was filed by the commission and the two utilities.

Suit to have the order set aside had been filed by patrons at Terre Haute and the case was taken to Judge Baumunk's court on a change of venue. In his decision last March, Judge Baumunk criticized the state commission and two of its members for procedure in the case.

## Kentucky

### Utility Levy Cut

**T**HE annual assessment of public utilities for the state public service commission's operating expenses will be reduced from \$130,000 to \$100,000 because of war's depletion of the commission's field forces.

Announcing this late last month, Commission Secretary Marvin Eblen said much of the work consisted of finding original costs of utility companies under the commission's jurisdiction. He added that inability to replace trained men lost to the armed forces and to war plants would slow down the work for the duration of the war. The reduction order applies only to the fiscal year beginning July 1st, he said.

Investigation of original cost of the larger utility companies which has been going on for several years will be completed, he said, with the force available.

### City Acquires Waterworks

**T**HE city of Mayfield recently completed purchase of the water system in that city from the Tri-City Utilities Company, successors to the liquidated Kentucky-Tennessee Light & Power Company, only a few hours after permission for the transaction had been granted by the state public service commission.

The city paid approximately \$400,000 for the system, and, according to Mayor Coleman Waldrop, took over its operation immediately.

## Louisiana

### Lower Gas Rate Demanded

**A** RETURN of 19.72 per cent on its average net utility plant investment and estimated working capital was realized during 1941 by the Interstate Natural Gas Company, testimony at the Federal Power Commission hearing in New Orleans on the company's rates showed recently.

Tabulations concerning the return, prepared by accountants of the Power Commission, were submitted as evidence as the hearing reached the end of its third day. Average net utility plant investment used by the commission in its figures was \$10,198,871. Estimated working capital was \$348,089.

Mayor Fred LeBlanc of Baton Rouge stated that the nearness of his city to the university

## PUBLIC UTILITIES FORTNIGHTLY

gas field warranted a cheaper rate on gas distributed in the state capital. Gas delivered to Louisiana State University costs 8 cents per thousand cubic feet, while the city rate is 20 cents, he said.

Mayor LeBlanc asserted that Gulf States' operating costs for 1941 were \$369,625, and that \$214,391 of this went for the purchase of gas. The pipe line's gate rate prices, therefore, he said, "form a substantial part of the distributing system's cost of operations."

City Commissioner S. A. Harris of Baton Rouge stated that Interstate's charges to Gulf States are "excessively and unreasonably high." Consumers in Baton Rouge, he added, "are entitled to relief through a reduction in wholesale rates."

Testimony showed that Interstate buys from the Sugarfield Oil Company and delivers to Gulf States Utilities Company, the distributing company in Baton Rouge. The cost to Interstate is 4 cents a thousand feet at the well.

## Maine

### OPA Enters Rate Case

**P**ERMISSION to intervene in opposition to a proposed increase in secondary power rates of the Bangor Hydro-Electric Company was sought on June 27th by Price Administrator Leon Henderson in a petition filed with the Maine Public Utilities Commission in Bangor. The OPA petition was filed in Henderson's name by Harry R. Booth, OPA utilities counsel.

The administrator's petition said that, on the basis of information supplied by the power company, the effect of the proposed increase

would be to raise the annual operating costs and expenses of certain manufacturers of pulp and paper, which products are under OPA price ceilings.

Further, according to the OPA's petition, "it appears that the proposed increased rates are predicated principally upon alleged estimated increases in Federal income taxes to be levied in 1942." Approval of the increase under these circumstances, the commission was told, would be contrary to the intent of the Congress, inflationary in character, and would adversely affect the programs and policies of OPA to stabilize prices.

## New Jersey

### Rebates Due

**R**EBATES for 56,160 residential and commercial power consumers supplied by New Jersey Power & Light Company were ordered on June 18th by the state board of public utility commissioners.

Joseph E. Conlon, commission president,

said \$131,635 would be distributed through a 50 per cent reduction in the first monthly bills rendered by the company after July 1st. Increased revenues warranted credits, he said.

Communities affected included Bernardsville, Dover, Flemington, Hackettstown, High Bridge, Lambertville, Netcong, Newton, Phillipsburg, and Washington.

## New York

### Plan to Limit Gas

**T**HE state public service commission has ordered an investigation to determine whether the companies of the Long Island Lighting system should be permitted to restrict the supply of gas for space or building heating to new customers or for use in new equipment by existing customers. The companies propose to put into effect such a limitation on the ground that they may need their available supply for war industries and to insure continuity for domestic use.

Pending determination of the matter, the limitation proposal was suspended. The companies involved are Long Island Lighting Company, Queens Borough Gas & Electric Com-

pany, Nassau & Suffolk Lighting Company, and Long Beach Gas Company.

### FPC Decision Ends Dispute

**A** 2-YEAR controversy over the cost of the Niagara Falls Power Company's big hydroelectric power development at Niagara Falls, New York, was terminated on June 22nd with announcement by the Federal Power Commission that it had determined the "actual legitimate cost" of the plant to be \$24,680,680 as of March 2, 1921.

The commission disallowed \$15,787,688 of the \$44,453,868 book cost of the fixed capital in service on the 1921 license date and reserved for further consideration items totaling \$3,-

## THE MARCH OF EVENTS

985,500, representing the book costs of lands, interest, and a flour mill purchase.

The actual cost of the project, known as Project No. 16, set by the commission, was less than half the \$57,315,863 which the company claimed as the "fair value" of its prop-

erty in applying for an FPC license in 1920.

Paul A. Schoellkopf, president of Niagara Falls Power Company, announced on June 26th that the Niagara Falls Power Company would promptly take steps to review in the courts the recent decision of the FPC.

## Ohio

### To Increase Gas Supply

**A**NTICIPATING record-breaking demands next winter from additional domestic consumers and war industries, the East Ohio Gas Company was scheduled to expand by 75 per cent the storage capacity of its liquid gas plant, first structure of its kind in the world and one which precluded serious fuel shortages in the sub zero weather last winter.

This was disclosed last month by W. G. Hagan, East Ohio vice president in charge of operations, who also announced two other measures to increase the company's war-time volume of distribution over a system that em-

braces most of the industrial cities of northeastern Ohio.

Seven miles of pipe line, 20 and 22 inches in diameter, will be laid from Maple Heights boulevard and Lee road, Maple Heights, to Green and South Woodland roads, Shaker Heights, to insure an additional volume of gas for times of peak demand in an area with a heavy concentration of gas-heated homes.

Also, the company will construct an 8-inch pipe line that will be 22 miles long from gas pools in Tuscarawas and Stark counties to transport the fuel to a central control station near North Canton, where East Ohio's main transmission lines converge.

## Pennsylvania

### Utility Merger Proposed

**T**HE Pennsylvania Electric Company, Johnstown, recently applied to the Federal Power Commission for authorization to acquire all the utility assets and facilities of the Keystone Public Service Company, Oil City. The commission said the two companies made a purchase agreement May 22nd.

Cost of acquisition would be determined by the estimated original cost of Keystone's assets and would be paid in cash. In addition, Pennsylvania Electric would assume the payment of all debts and liabilities of Keystone.

Keystone serves municipalities in Crawford and Venango counties, including Franklin City, Oil City, Titusville City, and Hidetown, Pleasantville, Polk, Rouseville, and Utica boroughs. Pennsylvania serves municipalities in Cambria, Centre, Clarion, Clearfield, Crawford, Erie, Forest, Indiana, Jefferson, Somerset, Venango, Warren, and Westmoreland counties.

### Gas Rate Rise Threatens

**A** MOVE to further boost the price of oil, which is used to enrich manufactured gas, threatens to force a rise in rates for the latter fuel in Philadelphia. That was revealed recently by Councilman George Maxman, chairman of the gas commission, as he prepared to go to Washington to fight the proposed oil price increase.

Present oil price is \$1.85 a barrel, Maxman

said. It has been jumped twice from last year's figure of \$1.35, he explained. The major companies now are seeking permission from the Office of Price Administration to raise the figure to \$2.50 a barrel.

Together with Hudson W. Reed, executive vice president of the Philadelphia Gas Works Company, which operates the city-owned gas works, Maxman would ask the OPA to cut the price to the previous \$1.35 a barrel.

"The commission is perturbed," Maxman said. "Gas rates were reduced two years ago to promote the use of gas, particularly for heating and industrial purposes. Since then labor and material costs and taxes all have gone up—but gas rates have not. That is because our output is about 2,000,000,000 cubic feet a year higher, and we've been able to absorb the increased costs in the profits. But if oil goes up in price, I don't see how the company can get by without raising the price of gas."

### Rate Complaint Dismissed

**T**HE city of Pittsburgh's complaint against an increase in rates by the Manufacturers Light & Heat Company was dismissed on June 24th by the state public utility commission for lack of prosecution.

The state commission at the same time dismissed the city's motion that records in the commission's case against the utility be adopted in the city's complaint. Commissioners

## PUBLIC UTILITIES FORTNIGHTLY

Thomas C. Buchanan and Richard J. Beamish, comprising the commission's Democratic minority, dissented.

The commission said the city, "moved by commendable care for the interests of its citizens," filed a complaint against the increased rates prior to their effective date; the PUC instituted its own proceedings and suspended the proposed rate boosts.

Both proceedings were consolidated and the commission found that since they are identical there is no reason for continuance of the city's separate complaint. Hearings have been completed and the case is now before the commission for decision.

### No Free Rides

**T**HE Pennsylvania Transportation Company last month declined to grant free rides to service men. President Ralph T. Senter said it was feared so many soldiers and sailors would take advantage of such a concession as to interfere with PTC's job of hauling workers to and from vital war industries.

Senter made his announcement in a letter to the Philadelphia city council, which on May 21st adopted a resolution urging PTC to carry service men in uniform free on busses, trolleys, and subways.

"The company is doing its utmost," Senter wrote, "to forward the war effort and to furnish adequate transportation to centers of war

activities such as the Navy Yard, the arsenal, and the great defense plants of the Philadelphia area.

"Increase in war production and gasoline rationing are causing increased riding on our vehicles and are expected to continue to do so. . . . The granting of free transportation to uniformed men in the armed services would undoubtedly result in additional riding that would place an extra burden upon our equipment resources, which are already strained."

State Public Utility Commissioner Richard J. Beamish has called upon the Office of Price Administration to investigate "possible collusion" in the recent move for higher transit wages. At the same time he asked the OPA to consider imposing a ceiling on wages of all public utility employees.

Beamish voiced both requests as he presided over a city hall hearing on the Philadelphia Transportation Company's petition for higher trolley fares. OPA Counsel Robert M. Jones, present in behalf of OPA to oppose any fare increase, promised to convey the requests to Washington.

PTC Attorney Frederic L. Ballard at a recent session disclosed for the first time publicly that the PRT Employees Union had asked a 20-cent hourly wage boost for the company's 11,000 employees last May 18th. The proposal, amounting to more than 24 per cent of the present base pay rate of 83 cents an hour, would cost PTC about \$4,500,000 a year.

## Texas

### Gas Company Tax Up

**T**HE Dallas Gas Company will have a city tax bill approximately \$10,000 higher this year than in 1941, J. A. Tracy, chief deputy city tax assessor, said recently as he approved a \$5,852,270 net property valuation for the concern's holdings—an increase of \$585,180 over last year's figures.

Tracy praised the coöperative attitude of

gas company officials in the negotiations which began after a net valuation figure of \$5,269,090 was submitted several weeks ago.

Had the original figure been approved the company would have been able to pay \$14,336 less in taxes than will now be assessed, Tracy said. In addition to the increase, the company also will pay the city \$80,000 this year in a new gross receipts tax of 4 per cent approved recently.

## Wisconsin

### Asks Order Vacated

**A** SUIT asking that a state public service commission order giving the Wisconsin Southern Gas Company permission to furnish natural gas in Wisconsin be set aside and vacated was filed in Dane County Circuit Court on June 24th.

The suit was brought by the Wisconsin Coal Bureau, Milwaukee, and the Upper-Michigan Fuel Dealers Association, competitors of the Wisconsin Southern.

The plaintiffs alleged that the commission

overstepped its authority and that its action needed authorization of the Federal Power Commission. It also charged that the company would give inadequate service in the change-over from manufactured to natural gas and that Wisconsin labor would be adversely affected.

The commission authorized the Wisconsin Southern firm to convert its service to natural gas and to construct a pipe line from Lake Geneva to the Wisconsin-Illinois line. Subsequently, Federal orders have prevented the company from accepting the authorization.

# The Latest Utility Rulings

## Fuel Adjustment Clause to Overcome Rigid Nature of Utility Rates



As a general principle, says the Connecticut commission, the fuel adjustment clause points the way toward the solution of one of the most acute problems in the utility rate-making field; namely, that of integrating public utility rates, which are generally of a rigid nature, into a flexible national economy. This was said in a case where a fuel adjustment clause was permitted to go into effect. The commission observed:

The economic system of the country has been subjected in an increasing degree to strain by virtue of the tension occasioned by rigid public utility rates in a nonrigid general price situation. Anything that can be done to bring utility rates more nearly into harmony with the general economic system is to that extent a public gain. It should mean a better balance in the economic system and a more effective operation of economic forces. Fuel adjustment clauses also bring about a reduction in customer payment during a period of falling prices in depression eras when customers are most in need of reducing their living expenses. Likewise the increase in price to a customer occurring in an upward swing of price levels takes place at a time when the ability of customer to pay, as measured in dollars, has in most instances moved upwards.

Fuel adjustment clauses have been usual

in electric power rates and in gas rates applicable to industrial consumers. They have come into use for household customers in recent years in this state and in many companies in Massachusetts and several other New England states.

Elimination of rate schedules taken over in a merger was also permitted. These rates had been continued in force to avoid customer displeasure and to permit a reasonable length of time within which customers might shift to rates of the surviving company applicable to the service supplied. They had not been available to new customers.

The comparable rates of the present company provided for a lower unit cost of service if the customer used the service more than a minimum amount. The old rates benefited customers who used service in very small amounts. The revenue involved was inconsequential.

The commission believed that as a general principle all customers similarly situated should be treated in the same manner with respect to rates. The rates eliminated were regarded as obsolete and discriminatory. *Re Connecticut Light & Power Co. (Docket No. 7203).*



## Promotional Rates Deferred and Extension Contributions Required during War

EVERYTHING should be done to conserve vital and critical metals for desperate war needs through limitation of nonessential civilian usage, such as that encouraged by promotional rates, says the Georgia commission. The commission also holds that temporary war industries should contribute toward extension cost.

"The conference method of rate making," adopted a little more than five years ago, has, according to the commission, resulted in large rate reductions. The commission, after stating that no rate increases had been authorized during this period, referred to the fact that the Georgia Power Company had been ordered to adopt a promotional schedule known as



## PUBLIC UTILITIES FORTNIGHTLY

"A-5." Continuing, the commission said in part as follows:

The promotional schedule "A-5," automatically applicable to consumers with increased usage over the base bill amounts, awarded a further saving to all such consumers using more than 15 kilowatt hours per month.

Contrary to the usual and more equitable provision of requiring a continuation of the promotional rate until such time as a fixed percentage of the customers, usually representing 80 per cent, had earned the rates through increased usage, the order of the commission prescribing the rate provided that the promotional schedule "A-5" should become the immediate rate at the end of a 3-year period, which will be the first day of June next, although a customer analysis discloses that only 58 per cent of the company's customers have actually earned and are now being served on this promotional schedule. The extension of this reduced rate at this time to the remaining customers, without the resulting benefits normally inuring to the company from the resulting increased usage, which the promotional rate was designed to provide, obviously, places upon the company an abnormal burden, and one which its present revenues do not appear to justify; whereas, the temporary postponement of the effective date, pending further study by the commission, will in no wise change or affect the present status of the customers of the company to whom all the benefits of the rates will continue to be available.

The effect of war measures and increased operating costs was reflected in decreased income. The commission commented:

In view of the dire needs of our nation, which have necessitated the freezing orders on construction and the limitation orders on

kilowatt hour sales, both indirectly affecting and directly prescribing conditions for the extension and limitation of electric service, it should be clear that the company cannot possibly realize an increased utilization which would normally be available to offset a part of the substantial reduction in revenues, which will result from the application of the promotional rate as the immediate rate schedule.

Regulations under which the company is required to provide extensions as well as transformer stations at its own expense had been promulgated on the basis of normal long-term usage by permanent peace-time industries. When the company is called upon to provide service to temporary war industries, sometimes located far from existing facilities and sometimes involving a very large and unusual transformer expense to meet abnormal load conditions, a large expenditure is required. Therefore, said the commission, unless some provision is made for a contribution by such temporary industries for the expenditures required, with an amortization repayment plan in the event they become permanent, other customers will be called upon in the future to provide a return on a greatly increased capital investment which was not made for their direct benefit but for the good of the nation as a whole. It is proper, therefore, in the opinion of the commission, that such cost should be absorbed in the over-all cost of the war. *Re Georgia Power Co. (File No. 19314-1, Non-Docket).*



### Court Upholds SEC Ruling That Company Is Susceptible to Control

AN order of the Securities and Exchange Commission denying an application by the Pacific Gas and Electric Company for a declaration under § 2(a) (8) of the Holding Company Act that it is not a subsidiary of the North American Company has been sustained by the circuit court of appeals, ninth circuit. The decision involves a construction of § 2(a) (8), which provides that the commission shall declare that an appli-

cant is not a subsidiary company if it finds three facts: (1) That the applicant is not controlled by a holding company; (2) that the applicant is not the medium of control of another company by a holding company; and (3) that the management and policies of the applicant are not subject to a controlling influence so as to make it necessary or appropriate in the public interest or for the protection of investors or consumers that the applicant



## THE LATEST UTILITY RULINGS

be subject to the obligations, duties, and liabilities imposed by the Holding Company Act.

The company contended that the language of the statute describing the third fact means "actual and existing control" rather than "susceptibility to control," and since the commission found that the evidence affirmatively showed a lack of actual and existing control, an exemption should have been granted. The court upheld the commission's ruling that susceptibility to control was a sufficient basis for denying exemption.

The company quoted a portion of a committee report and a part of Senator Wheeler's argument in the debates on the Holding Company Act. The court, however, thought such argument must be disregarded because contrary to the plain meaning of the act.

Another question was presented as to the interpretation of the necessity clause. The narrowest construction, said the

court, arises when this clause is construed as modifying all three of the conditions mentioned. A second and more liberal construction arises when the necessity clause is considered as modifying only the third condition. A third construction, and the one adopted by the court, would make the necessity clause a fourth condition. As thus construed, before the application should be granted the commission must find that there is no control under either of the three conditions, and as a fourth condition it must find that regulation is not necessary or appropriate.

Circuit Judge Garrecht, in a dissenting opinion, declared that the opinion of the court had added to the act by judicial construction conditions not imposed by Congress and that the commission order was arbitrary and capricious and should be reversed. *Pacific Gas & Electric Co. v. Securities and Exchange Commission*, 127 F(2d) 378.



### Court Upholds FPC Jurisdiction Based on Power Line Connections

THE United States Circuit Court of Appeals for the Third Circuit has ruled that the Jersey Central Power & Light Company is subject to the jurisdiction of the Federal Power Commission, sustaining the commission's order in *Re New Jersey Power & Light Co.* (FPC 1939) 30 PUR(NS) 33. The commission had held that the New Jersey Power & Light Company must disclose all facts in connection with its acquisition of stock of Jersey Central.

Part of the electrical energy generated by Jersey Central at its South Amboy plant, according to the court, goes to the Staten Island Edison Company, a New York utility. This company has arrangements with Public Service Electric & Gas Company, under which it occasionally exchanges energy. Both of these companies operate intrastate except to the extent that some energy may be transmitted to the Staten Island Company. Jersey Central has no direct trans-

actions with the Staten Island Company. The court, however, said:

How much of the electricity which flowed from Public Service to the Staten Island Company originated in Jersey Central's South Amboy generators . . . no one can say. It is certain that some did go to the Staten Island Company. Measured in terms of the kilowatt hours generated and transmitted by large electric public utility systems it was small.

Referring to the fact that jurisdiction was asserted by the commission because some part of the current transmitted by Jersey Central over the connecting line to Public Service reached the Staten Island Company, the court said:

That electric energy was transmitted in interstate commerce within the meaning of § 201(c) if the words of the subsection be applied literally. The facilities of Jersey Central were in fact employed for this transmission. . . . The fact that Jersey Central sold this electricity to Public Service rather than to Staten Island does not serve to put the flow out of commerce. Once elec-

## PUBLIC UTILITIES FORTNIGHTLY

tricity flowed from the Jersey Central generating plant to the Staten Island Company, commercial transactions between the three companies under their respective contractual relations and arrangements followed. This was interstate commerce within the meaning of the commerce clause. It follows that Jersey Central is a public utility within the meaning of § 210(e) of the act.

Recognizing that the sale of Jersey Central stock to the New Jersey Power & Light Company was subject to regulation by the state of New Jersey, the court deemed it necessary to consider the point of dual control only in so far as it might be applicable to the appeals be-

fore it. It was said in part as follows:

The authority of the board of public utility commissioners of New Jersey must be deemed to be paramount in those matters which may affect the intrastate transmission of electricity and the authority of the Federal Power Commission must be deemed to be governing as to those matters which may affect the transmission of electric energy in interstate commerce. We cannot presume a conflict between the two regulatory bodies upon the issue of whether or not Jersey Power should have bought the stock of Jersey Central. No conflict is shown upon the present record and none may ever come into existence.

*New Jersey Power & Light Co. v. Federal Power Commission.*



### Surcharge Wins Approval

THE North Carolina commission authorized the application of a 5 per cent surcharge to residential electric rates and a 10 per cent surcharge to rates for wholesale or large power and mining business. The application of the 5 per cent surcharge, in the opinion of the commission, would not produce an unreasonable rate. A 15 per cent surcharge, asked by the company for the other services, was, however, considered excessive. The commission explained its views as follows:

The fact that a utility is in the red or that it is not earning a fair return on its investment is not the only element to be considered when a higher rate is applied for owing to a pressing need for greater revenue, for the reason that the commission cannot prescribe other than a just and reasonable rate, although a higher rate than a reasonable rate

would be required to produce a fair return; then, too, a fair return might require a rate which would be apparently reasonable when measured by utility and other business standards, and yet if this rate should be greater than a customer could use with profit in this business and cause him to terminate service the increased rate if granted would defeat instead of win an increase in revenue. . . .

It is quite patent . . . that the petitioner . . . needs a greater spread of revenue over expenses; however, this unfortunate fact cannot be used successfully as grounds for the imposition of rates which are unreasonable with the hope of plugging a yawning deficit. However, the commission feels that the company is entitled to some relief and that the schedules of the company are susceptible to some increases without doing violence to the interest of the customers.

*Re Northwest Carolina Utilities, Inc. (Docket No. 2535).*



### Higher Industrial Rates Permitted over Objections of Dissenting Commissioners

SPECIAL permission to make effective, upon less than statutory notice, tariff supplements filed by the Pennsylvania Power & Light Company was granted by the Pennsylvania commission. Commissioners Buchanan and Beamish filed dissenting opinions. No opinion was filed by the majority commissioners.

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Commissioner Buchanan said that the proposal to close out present industrial rates and substitute new rate schedules at higher levels was "self-serving, taking advantage of war conditions and contrary to the public interest." Additionally, he pointed out that the commission had instituted a rate case against the company.

## THE LATEST UTILITY RULINGS

From preliminary reports at hand, he said, it was evident that a rate reduction was quite possible. He declared:

In view of the fact that a record is being made in a rate case, which should permit a review of the entire rate structure, it seems premature, to say the least, that the proposal of the Pennsylvania Power & Light Company to increase industrial rates in the Lancaster and other areas should be approved by the commission.

Commissioner Beamish took a similar position, stating that he dissented emphatically. He said that the company should bring down high rates in other communities rather than to increase rates

that "have proved profitable and that have built up large industrial plants in the Lancaster area." He expressed the opinion that a holding company had been "milking" the operating company to such an extent that it had a poor cash position. He continued:

The increases will hamper industries engaged in the national war effort. These are heavily burdened with increased income taxes. The welfare of these industries affects the welfare of their employees. The tendency of these increases is toward dangerous inflation.

*Re Pennsylvania Power & Light Co. (Special Permission No. 20674).*



### Telephone PBX Service Denied to Physicians In Apartment Buildings

DOCTORS and the owner of two large apartment buildings complained unsuccessfully to the Pennsylvania commission against the denial of private branch exchange telephone service to nonsubscriber tenants. The telephone company successfully defended on the ground that rules and regulations forbid the resale of service by a subscriber and prohibit directory listings of persons not associated in business with the subscriber which indicates the profession or business such a person might be engaged in.

Three distinct conditions exist with respect to the arrangement of doctor tenants: (1) Where the doctor's office is physically connected with his residence; (2) where the doctor maintains an office and a residence in the building but where the two premises are not physically connected; and (3) where the doctor maintains an office in the building but does not reside there. The complainants contended that the company's rules denying physicians the right to receive service through the apartment house private branch exchange, accompanied by listings in the classified and alphabetical sections of the telephone directory designating their profession, were arbitrary and unreasonable. Their principal advantage appeared to be the secretarial feature of

the service performed by the operator.

The company argued that it was necessary in the interests of the service to the public that all businessmen particularly physicians, secure service direct from the telephone company rather than from a third party, in this case the management of the apartment buildings. The commission recognized not only the reasonableness but the necessity of requiring the elimination of a third person, stating:

The introduction of a middleman in the communication field raises many problems including that of regulation. Regardless of respondent's tariff provisions governing service rates the middleman can and in many instances probably does charge the service user rates considerably higher than those covered by legally filed and effective tariffs. . . . The record shows that respondent's schedule of toll rates is adhered to in billing complainants and a 5-cent charge is in effect for local service calls. This latter charge is somewhat higher than the legally filed and effective tariff rate for such service and to this extent can be considered a resale of service.

The commission referred to the decision in 1015 Chestnut Street Corp. v. Bell Teleph. Co. of Pennsylvania, PUR-1931A 19, where it was held that rules and regulations limiting extension stations and directory listings in connection with private branch exchange service to

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the subscriber and those associated with him were reasonable and just and should be strictly enforced against all new applicants for service.

The commission said it was well to remember that all other physicians, lawyers, engineers, and other business and professional men in the city were being

furnished telephone service in accordance with the rules and regulations and that to permit an exception would result in discrimination. *Clerf et al. v. Bell Telephone Co. of Pennsylvania* (Complaint Docket No. 12474, Informal Complaint Docket Nos. 11450, 11451, 11487, 10789).



### Other Important Rulings

THE Securities and Exchange Commission authorized acquisition by Pacific Power & Light Company of all properties, rights, licenses, and assets of its wholly owned subsidiary, Inland Power & Light Company; assumption by Pacific of all of Inland's liabilities and indebtedness; and the termination of Inland as a separate corporate entity. Since the requirements of § 10 of the Holding Company Act were found to have been met, it was deemed unnecessary to decide whether the proposed acquisition was within the exemption provided by § 9(b)(1) of the act. *Re Pacific Power & Light Co.* (File No. 70-491, Release No. 3505).

The supreme court of Washington held that the department of public service, in determining which of two contesting applicants should be granted an extension of certificates of public convenience and necessity for bus service, is not bound by a private agreement of the parties concerning the establishment of routes and tariffs as between themselves. *Suburban Transportation System v. Furse et al.* 125 P(2d) 266.

The circuit court of appeals, tenth circuit, in reviewing a decision of the United States Board of Tax Appeals involving taxable gains, observed that rates of pipe-line companies are subject to regulation by the Interstate Commerce Commission and that a valuation

by that commission for rate-making purposes is presumed to have been correctly and impartially made; and knowing that earnings on the rate base fixed by the commission were unreasonable, the court said it might assume that the commission would fix rates that would produce only a reasonable return, and, therefore, it was error to arrive at the market value of assets on the sole criterion of earnings during earlier years projected over the economic life of the property. *Texas-Empire Pipe Line Co. v. Commissioner of Internal Revenue*, 127 F(2d) 220.

The United States Circuit Court of Appeals recently set aside a National Labor Relations Board order directing the Southern Bell Telephone Company to get rid of an employees' association unaffiliated with any national group. The board's order was instigated by a representative of the AFL union of electrical workers, which was trying to organize Southern Bell employees in nine southern states. The court said the NLRB had abused its discretionary powers and had permitted itself to be enlisted as "accuser" by a national labor union. The court found that the employees' association had a membership of 17,775 out of a possible 20,000 eligible employees and that until 1940 (when the AFL organizer appeared) no objection or protest was ever voiced by any employee against it. *Southern Bell Telephone Co. v. NLRB*.

NOTE.—The cases above referred to, where decided by courts or regulatory commissions, will be published in full or abstracted in *Public Utilities Reports*.

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RE THE NORTH AMERICAN CO.

SECURITIES AND EXCHANGE COMMISSION

Re The North American Company, et al.

[File No. 59-10, Release No. 3405.]

*Intercompany relations, § 19.8 — Integration of holding company system — Selection of principal system.*

1. Issuance of an alternative order indicating what additional systems and what other businesses may be retained in addition to various integrated utility systems controlled by a holding company, in integration proceedings under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), should be denied where the holding company fails to indicate a choice of a principal system, a full record is presented to the Commission upon which final and definitive action may be taken, and an alternative order would lead to extreme complications because of the existence of several subsidiary holding company systems as to which findings would be necessary, p. 266.

*Intercompany relations, § 19.4 — Integration of holding company system — Selection of principal system.*

2. The integrated electric system, previously indicated by a registered holding company to be its preference for retention, was taken by the Commission as the principal system retainable in proceedings under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), where retention of this system would be appropriate, although the holding company had refused to designate which of the systems should be its principal system, but further opportunity was afforded to present argument as to whether any other system should be so designated, p. 267.

*Intercompany relations, § 19.5 — Integration of holding company system — Additional systems retainable.*

3. Section 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), requires that a registered holding company divest itself of those of its utility subsidiaries which are not retainable as part of the holding company's principal system or as part of an additional system or systems meeting the requirements of the (A), (B), and (C) clauses of § 11(b)(1), p. 269.

*Intercompany relations, § 19.5 — Integration of holding company system — Additional systems retainable.*

4. The standards of the (A), (B), and (C) clauses of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), for additional systems retainable in a holding company system are in the conjunctive and each must be satisfied to permit retention of additional systems, p. 269.

*Intercompany relations, § 19.5 — Integration of holding company system — Additional systems — Geographical limitations.*

5. Section 11(b)(1)(B) of the Holding Company Act, 15 USCA § 79k(b)(1)(B), bars retention by a holding company of additional systems located elsewhere than in the state in which the principal system operates, or in states adjoining such a state, or in a foreign country contiguous thereto, p. 270.

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### *Intercompany relations, § 19.5 — Integration of holding company system — Additional systems — Adjoining states.*

6. Two states separated by a lake and having no common boundaries on land, but having such boundaries in the lake, are adjoining states within the meaning of § 11(b)(1)(B) of the Holding Company Act, 15 USCA § 79k(b)(1)(B), relating to the retention of additional systems in adjoining states, p. 270.

### *Intercompany relations, § 19.5 — Integration of holding company systems — Additional systems — Substantial economies.*

7. The term "substantial economies" in § 11(b)(1)(A) of the Holding Company Act, 15 USCA § 79k(b)(1)(A), relating to retention of additional systems in order to avoid loss of substantial economies, refers to economies which may be secured by the systems themselves rather than to economies which may be secured by the holding company, and such economies, in order to satisfy the standard, must be important economies—not merely something more than purely nominal or de minimis economies, p. 271.

### *Intercompany relations, § 19.5 — Integration of holding company system — Additional systems — Localized management.*

8. Clause (C) of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), barring retention of an additional system so large as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation, would not be satisfied by a combination of systems controlled by a registered holding company surrounding large cities in different widely scattered sections of the country, each being the focal point of a different area or region in a geographical, sociological, and operational sense, p. 276.

### *Intercompany relations, § 19.3 — Integration of holding company system — Combination of gas and electric properties.*

9. Gas and electric utility properties cannot in combination be regarded as a single integrated utility system under the Holding Company Act, p. 278.

### *Intercompany relations, § 19.6 — Integration of holding company system — Other businesses retainable.*

10. The historical background of the joint control of a nonutility business with a utility business has little or no bearing on the permissibility of its retention in a public utility holding company system under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), p. 280.

### *Intercompany relations, § 19.6 — Integration of holding company system — Other businesses retainable.*

11. The substantiality and stability of income afforded by nonutility interests is not, in and of itself, a factor warranting their retention in a public utility holding company system under the terms of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), p. 281.

### *Intercompany relations, § 19.6 — Integration of holding company system — Other businesses retainable — Economies — Joint use.*

12. The mere showing of economies from joint use of personnel is of little weight in determining whether a nonutility business may be retained in a holding company system under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), but it must be shown that the nonutility business is such that resulting economies are economies in the operation of an integrated utility system or systems, p. 281.

## RE THE NORTH AMERICAN CO.

### *Intercompany relations, § 19.6 — Integration of holding company system — Retention of nonutility interests — Absence of harm.*

13. More than a showing that no positive harm will result from the retention of a nonutility interest in a holding company system is necessary in order to satisfy the requirements of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1); a showing is required that the public interest will be furthered by such retention, p. 281.

### *Intercompany relations, § 19.6 — Integration of holding company system — Other businesses retainable.*

14. Retention by a registered holding company of securities of public utility companies which are subsidiaries within the meaning of the Holding Company Act is permissible only if the subsidiaries serve as the principal or a permissible additional system under Clauses (A), (B), and (C) of § 11(b)(1), 15 USCA § 79k(b)(1), and such retention is not covered by the "other business" clauses, p. 282.

### *Intercompany relations, § 19.6 — Integration of holding company system — Retention of other businesses — Diversity factor.*

15. The mere fact that an investment offers diversity affords no justification for its retention by a public utility holding company under the "other business" clauses of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), p. 283.

### *Intercompany relations, § 19.6 — Integration of holding company system — Retention of coal business.*

16. Retention of a coal company in a holding company system is not permissible under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), when the coal company's output is sold almost exclusively to non-affiliated purchasers and the interest of the holding company does not represent ownership of a vital commodity used in the operations of the public utility system, p. 285.

### *Intercompany relations, § 19.6 — Integration of holding company system — Retention of steam heating business.*

17. Retention of a steam heating business in a holding company system is permissible under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), where close operating relationship between the steam and the electric departments of a utility company is shown, p. 285.

### *Intercompany relations, § 19.6 — Integration of holding company system — Retention of coal business.*

18. Retention of a coal company in a holding company system under the "other business" clauses of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), is permissible where almost the entire output of the coal company is devoted to the permissible utility operations of the system and where other facts show intimate relationship between the coal company and retainable utility operations, p. 286.

### *Intercompany relations, § 19.6 — Integration of holding company system — Retention of transportation business.*

19. Retention of a railroad in a holding company system under the "other business" clauses of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), is permissible where the railroad has a relatively small amount of property and transports as its principal cargo a large portion of the coal consumed in permissible utility operations of a holding company sys-

## SECURITIES AND EXCHANGE COMMISSION

tem and where the mines from which such coal comes have been found to be retainable, p. 287.

### *Intercompany relations, § 16.6 — Integration of holding company system — Retention of dormant companies.*

20. Retention in a holding company system of completely dormant companies kept alive because of the pendency of litigation arising out of suits commenced while the companies still had assets is not permissible when it is not shown that these companies meet the standards of the "other business" clauses of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), p. 288.

### *Intercompany relations, § 19.3 — Integration of holding company system — Disposal of properties — Market conditions.*

21. Difficulty of disposition has no relation to permissibility of retention of properties in a holding company system under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), but is relevant only to the time of compliance with orders of disposition, p. 290.

### *Intercompany relations, § 19.3 — Integration of holding company system — Retention of business — Effect of congressional resolution.*

22. A joint resolution of Congress of January 14, 1933, authorizing acquisition of interests in a company engaged in the transportation business is not a bar to an order pursuant to § 11 of the Holding Company Act, enacted in 1935, requiring divestment of such holdings, if the standards of § 11(b)(1) of the act, 15 USCA § 79k(b)(1), are not met, p. 292.

### *Intercompany relations, § 19.4 — Integration of holding company system — Additional systems retainable.*

23. No combination of systems should be permitted under Clause (C) of § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), which would impair true localization of management and policy making, p. 296.

### *Intercompany relations, § 19.6 — Integration of holding company system — Retention of transmission lines.*

24. Retention of transmission lines as a permissible "other business" under § 11(b)(1) of the Holding Company Act, 15 USCA § 79k(b)(1), was held to be permissible where a natural gas utility company derived its entire gas supply from transmission lines which bridged the gap from the source of supply to the ultimate consumer, although in the ordinary case the act contemplates that after compliance with § 11(b)(1) the integrated utility systems retainable by a registered holding company will constitute its primary business and that retainable nonutility interests will occupy a clearly subordinate position, p. 297.

### *Intercompany relations, § 19.4 — Integration of holding company system — Physical interconnection.*

25. The Commission, in determining the boundaries of an integrated electric utility system under § 2(a)(29) of the Holding Company Act, 15 USCA § 79b(a)(29), must find that the utility assets included therein are physically interconnected or are capable of such interconnection and that these utility assets under normal conditions may be economically operated as a single interconnected and coordinated system, and the language of the statute refers to the physical operation of utility assets, not the management of the company or companies owning them as a single interconnected and coordinated system, p. 300.

[April 14, 1942.]

## RE THE NORTH AMERICAN CO.

**P**ROCEEDINGS under § 11(b)(1) of the Holding Company Act relating to integration of public utility systems; order to dispose of businesses not retainable under the act entered.

**APPEARANCES:** Ralph C. Binford, Herman Odell, and Ester M. Calkin, for the Public Utilities Division of the Commission; Sullivan & Cromwell, New York, S. Pearce Browning, Jr., and Charles S. Hamilton, Jr., of counsel for The North American Company and its subsidiaries, other than North American Light & Power Company and its subsidiaries; Schenker & Schenker, New York, by David Schenker, for North American Light & Power Company and its subsidiary companies.

By the COMMISSION: This proceeding under § 11(b) (1) of the Public Utility Holding Company Act of 1935 was instituted by a notice of and order for hearing issued by the Commission on March 8, 1940, and duly served, naming as respondents The North American Company (hereinafter sometimes referred to as "North American") and its subsidiary companies.<sup>1</sup> This order, which was based upon an examination by the Commission of the holding company systems of North American and its subsidiaries, set forth various factual allegations and stated further that it appeared to the Commission that:

"The holding company system of The North American Company is not confined in its operations to those of a single integrated public utility system within the meaning of the act, and to

such other businesses as are reasonably incidental, economically necessary, or appropriate to the operations of such integrated public utility system."

The respondents were ordered to answer, "admitting, denying, or otherwise explaining their respective positions" as to the allegations made. The order further provided:

"Any such answer may include a statement of the claim of the respondents or any of them as to (a) the action, if any, which is necessary and should be required to be taken by any of the respondents (including the divestment of control, securities or other assets), to limit the operations of each of the registered holding companies hereinbefore named to a single integrated public utility system and to such other businesses as are reasonably incidental, or economically necessary or appropriate to the operations of such integrated public utility system; (b) the extent to which any of said respondents which is a registered holding company should be permitted to control one or more additional integrated public utility systems as may meet the requirements of clauses (A), (B), and (C) of § 11(b) (1) of the act; and (c) the extent to which any of said respondents should be permitted to retain an interest in any business (other than the business of a public utility company as such) as provided by § 11 (b) (1) of the act. The answer of any respondent which is a registered holding company may, if such respondent so desires, state

<sup>1</sup> Appendix A sets forth the names of these subsidiaries, the states of their organization, and the nature of their business. [Appendix omitted herein.]



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that such respondent proposes and is prepared to take such action as will cause it to cease to be a holding company within the meaning of the act, together with a description of such action and the time within which it proposes to take such action."

North American filed its answer on May 16, 1940. With minor exceptions, the factual allegations of the order of March 8th were admitted. However, it was claimed that the act was so "vague and uncertain" that the respondent had no knowledge or information sufficient to form a belief as to what constitutes a single integrated public utility system and such other businesses as may be retained thereunder. Section 11(b) (1), and other sections of the act implementary thereto, were alleged to be unconstitutional.<sup>2</sup> The answer also set forth a program of proposed action modifying the system in some respects. The proposed program contemplated, inter alia, the retention by North American of Union Electric Company of Missouri, one of North American's principal subsidiaries, and use of the proceeds of liquidation of other holdings for the acquisition of properties which could be integrated with the properties of Union Electric. It was stated that this program was based "only upon the hypothesis of voluntary action

by the respondent and shall not be construed as restricting the issues otherwise arising in this proceeding."

The admitted subsidiaries of North American also filed answers, almost identical in form, admitting, with minor exceptions, the factual allegations in our order of March 8th, and raising issues similar to those raised in North American's answer.

On June 7, 1940, North American moved to have the proceedings held in abeyance pending voluntary fulfillment of the program set forth in its answer, and until the Commission made investigations, studies, and public recommendations under § 30 of the act, 15 USCA § 79z-4. On June 18th North American moved for a dismissal of the proceedings, basing its motion on the argument that the Commission is without power to issue an order instituting a proceeding under § 11 (b) (1) of the act until it has made investigations, studies, and public recommendations under § 30 of the act, and further alleging that the notice and order instituting these proceedings before studies and recommendations were made under that section would deprive respondents of "property without due process of law in violation of the Fifth Amendment to the Constitution of the United States."

<sup>2</sup> We have repeatedly expressed the view that we have no authority to pass on the constitutionality of the legislation which we administer; we must proceed upon the assumption that the act is constitutional unless and until a court in an appropriate proceeding declares otherwise. *Re Engineers Pub. Service Co.* (1941) Holding Company Act Release No. 2897, 40 PUR(NS) 1; *Re International Utilities Corp.* (1941) Holding Company Act Re-

lease No. 3047, 40 PUR(NS) 257. See also *Panitz v. District of Columbia* (1940) 72 App DC 131, 112 F(2d) 39; *Re Walston & Co.* (1939) 5 SEC 112, 113; *Re J. A. Sisto & Co.* (1940) 7 SEC 647, 653. Counsel appear to recognize this principle and we assume that the question of constitutionality has been raised here only for the purpose of preserving it in the event of any possible judicial review.



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Both motions were denied.<sup>3</sup>

Upon denial of the application of the Detroit Edison Company under § 2(a) (8) of the act, 15 USCA § 79b (a) (8), for an order declaring it not to be a subsidiary of North American,<sup>4</sup> we issued, on August 12, 1940, a supplementary notice and order naming that company and its subsidiaries as respondents. The Detroit Edison Company answered both the original and supplementary orders.

Pacific Gas and Electric Company, whose application for an order declaring it not to be a subsidiary of North American was then pending, filed a separate and supplemental answer to the order of March 8th. The application for a declaration that it is not a subsidiary of North American was denied on September 11, 1941.<sup>5</sup>

On April 9, 1941, counsel for North American moved that the proceeding be dismissed as to cer-

tain subsidiaries on the ground that they had been dissolved, or that North American no longer had any interest in them. No objection has been made to this motion, and we think it may properly be, and it is hereby, granted.<sup>6</sup>

Requests for leave to intervene filed by the Public Service Commission of the state of Wisconsin and the Public Utilities Commission of the District of Columbia, the states of Delaware and Maine were granted. After the hearings herein were terminated, the city of Jacksonville, Illinois, served by Illinois Iowa Power Company, requested and was granted leave to intervene and present additional evidence subject to reply by respondents.

Hearings were begun on June 21, 1940, and terminated on April 15, 1941. In this period the record was developed to present a detailed description of the holding company systems of North American and its

<sup>3</sup> Somewhat similar motions were filed at about this same time in various proceedings under § 11(b)(1) involving other systems. In disposing of such motions, we directed that the notices served in such cases be supplemented by a more detailed statement of the Commission's tentative conclusions with respect to the action which "the Commission has tentatively concluded to be necessary under the provisions of § 11(b)(1)." See, e. g. *Re The United Gas Improv. Co.* (1940) 7 SEC 341, 33 PUR(NS) 285; *Re The Commonwealth & Southern Corp.* (1940) 7 SEC 369; *Re Engineers Pub. Service Co.* (1940) 7 SEC 371. However, it appears that in this case the respondents did not desire any such supplemental statement of the Commission's tentative conclusions as to what action the Commission tentatively believed necessary for the North American system under § 11(b)(1). Rather, it appears that respondents' motion was based on the theory that the Commission is required to make a general survey and general recommendations with respect to the entire public utility industry before instituting any specific proceeding under § 11(b)(1). Our views on the issues thus raised under § 30 of the act are set

forth at length in an opinion to be issued shortly in the proceeding under § 11(b)(1) with respect to the Commonwealth & Southern Corporation, et al.

<sup>4</sup> *Re Detroit Edison Co.* (1940) 7 SEC 968, 35 PUR(NS) 65. A petition for review of our order was denied in *Detroit Edison Co. v. Securities and Exchange Commission* (1941) 119 F(2d) 730, 39 PUR(NS) 193. *Certiorari* was denied in (1941) 314 US 618, 86 L ed —, 62 S Ct 105.

<sup>5</sup> *Re Pacific Gas & E. Co.* (1941) Holding Company Act Release No. 2988. A petition for review of our order is pending in the circuit court of appeals for the ninth circuit.

<sup>6</sup> The companies as to which this motion relates are Washington and Glen Echo Railroad Company, St. Louis and East St. Louis Electric Railway Company, Wired Radio, Inc., Wired Rediffusion Developments, Ltd., St. Charles Electric Light and Power Company, Lakeside Light and Power Company, Wisconsin General Railway Company, Bloomington and Normal Railway, Electric and Heating Company, Decatur Light, Heat and Power Company, Elkhart Electric Light Company, Chicago and Electric Valley Railroad Company.

## SECURITIES AND EXCHANGE COMMISSION

subsidiaries. Requested findings and briefs were filed<sup>7</sup> and we heard argument.

### *The North American Company and Its Subsidiaries*

North American is the top holding company in a system containing 80 companies which operate in New York, Maryland, the District of Columbia, Virginia, Ohio, Michigan, Wisconsin, Illinois, Iowa, Missouri, Kansas, Nebraska, Minnesota, Texas, Oklahoma, South Dakota, Kentucky, and California. The businesses engaged in by system companies include those of holding companies, electric utilities, gas utilities, natural gas production and transmission, steam and hot water heating, water supply, urban, interurban and railroad transportation, terminal and warehousing, real estate, coal mining, ice manufacturing and distribution, trucking, parking lot and filling station operations, meter servicing, heavy appliance design and manufacture, amusement park operations, investment companies, oil drilling, and gasoline extracting.

Electric utility operations are conducted by system companies in the District of Columbia, Maryland, Virginia, Ohio, Michigan, Wisconsin, Illinois, Iowa, Missouri, Kansas, and California. Appendix B

attached hereto [omitted herein] conveys some idea of the magnitude of the system's electric operations alone. Excluding the Detroit Edison Company and Pacific Gas and Electric Company,<sup>8</sup> it shows that approximately 64,700 square miles of territory, with an approximate population of 6,500,000 persons, and an aggregate of 1,700,000 customers, are served. The addition of the Detroit Edison Company increases the total population of the areas served by 2,580,000 persons, yielding a total of 9,080,000.

North American system companies render gas service in the states of Iowa, Missouri, Nebraska, Minnesota, Illinois, Kansas, Wisconsin, Michigan, and California.

The consolidated balance sheet of North American and subsidiaries, attached hereto as Appendix C [herein omitted], states the assets of the system as \$957,063,677, as of December 31, 1940. Appendix C also contains a consolidated income statement of North American and its subsidiaries as of the same date.<sup>9</sup>

Through the ownership of securities, directly and indirectly, of the companies in its system, North American controls an empire whose aggregate value is stated at a figure in excess of \$2,300,000,000.

<sup>7</sup> North American Light & Power Company (hereinafter sometimes called "Light & Power"), a subsidiary of North American and a registered holding company, filed a separate request for findings and a separate brief, on behalf of itself and its subsidiaries.

<sup>8</sup> As has been indicated, at the date of the institution of this proceeding, applications were pending under § 2(a) (8) for orders declaring the Detroit Edison Company and Pacific Gas and Electric Company not to be sub-

siidiaries of North American; consequently, these companies and their subsidiaries were excluded in many of the computations made with respect to the extent of the operations of the North American system.

<sup>9</sup> It should be noted that the policy of North American is to include in its consolidated financial statements only subsidiary companies in which it holds directly or through subsidiaries voting control and 75 per cent or more of the common stock.

## RE THE NORTH AMERICAN CO.

A chart of the system, showing the corporate relationships of companies therein and the percentages of voting power held by North American and its subholding companies, is attached as Appendix D. [Herein omitted.]

Appendix E [herein omitted] is a map showing the location of the electric service territories of the system.

Appendix F [herein omitted] is a map showing the location of gas operations of the system.

Appendix G [herein omitted] is a map showing the distances of various focal points in the areas served from the central offices of North American at 60 Broadway, New York city.

It is to this system that we must now apply the standards of § 11(b) (1). That section provides that it shall be the duty of the Commission, as soon as practicable after January 1, 1938:

"(1) To require by order, after notice and opportunity for hearing, that each registered holding company, and each subsidiary company thereof, shall take such action as the Commission shall find necessary to limit the operations of the holding-company system of which such company is a part to a single integrated public-utility system, and to such other businesses as are reasonably incidental, or economically necessary or appropriate to the operations of such integrated public-utility system: *Provided, however,* that the Commission shall permit a registered holding company to continue to control one or more additional integrated public-utility systems, if, after notice and opportunity for hearing, it finds that—

"(A) Each of such additional systems cannot be operated as an independent system without the loss of substantial economies which can be se-

cured by the retention of control by such holding company of such system;

"(B) All of such additional systems are located in one state, or in adjoining states, or in a contiguous foreign country; and

"(C) The continued combination of such systems under the control of such holding company is not so large (considering the state of the art and the area or region affected) as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation.

"The Commission may permit as reasonably incidental, or economically necessary or appropriate to the operations of one or more integrated public-utility systems the retention of an interest in any business (other than the business of a public-utility company as such) which the Commission shall find necessary or appropriate in the public interest or for the protection of investors or consumers and not detrimental to the proper functioning of such system or systems."

This opinion will deal not only with the holding company system of North American itself, but also with the status under § 11(b) (1) of each holding company system headed by subsidiaries of North American (except for the holding company system headed by Light & Power) which are themselves registered holding companies. Subsequent to the closing of the record herein and pursuant to proceedings under § 11 (b) (2) of the act, we ordered the dissolution of Light & Power. (1941) Holding Company Act Release No. 3233, 41 PUR(NS) 306. We assume that Light & Power will be dissolved in accordance with our order and that there will no longer be

## SECURITIES AND EXCHANGE COMMISSION

a holding company system headed by Light & Power. Consequently, any discussion of the requirements of § 11(b) (1) as they affect the Light & Power system would be academic. However, the dissolution of Light & Power will not per se affect the impact of § 11(b) (1) on the holding company systems headed by subsidiaries of Light & Power which are themselves registered holding companies. Those subsidiaries are respondents in this proceeding and, accordingly, we must order them and the holding company systems which they head to comply with the requirements of § 11(b) (1).

The holding company systems to be considered, in turn, are headed by the following registered holding companies (which are listed with appropriate indentations to indicate their relationship to North American and to one another):

- I The North American Company
- II Union Electric Company of Missouri
- III Washington Railway and Electric Company
- IV Washington and Rockville Railway Company of Montgomery County (North American Light & Power Company)
- V Northern Natural Gas Company
- VI Illinois Traction Company
- VII Illinois Iowa Power Company
- VIII Des Moines Electric Light Company

### *I. The Holding Company System of The North American Company*

#### *A. The Principal System*

[1] The initial problem faced in the

determination of what "one or more additional integrated public utility systems" the Commission "shall permit a registered holding company to continue to control" in addition to its operation of "a single integrated public-utility system" is the determination of what the "single" or "principal" system shall be. North American has insisted on its right to choose the principal system, but it has also insisted that the act "does not require, either expressly or by implication, that the holding company designate which of the systems shall be its principal system." Although it has had adequate opportunity, and although it has been requested to do so on several occasions, North American has not yet expressly stated its choice of a principal system, basing its failure to do so on the contention that it should be free to dispose of its nonretainable properties "as circumstances permit" without being "bound in advance to determine which system would be retained." We are requested to issue an alternative order, for which "precedent" is said to be found in the § 11(b) (1) proceedings relating to Engineers Public Service Company<sup>10</sup> and Commonwealth & Southern Corporation.<sup>11</sup>

We do not believe an alternative order is necessary, nor do we think that it would be appropriate to a disposition "as soon as practicable" of the issues here raised.

The procedure of alternative findings in the preliminary stages of the Engineers Public Service Company and Commonwealth and Southern Corporation Cases was adopted be-

<sup>10</sup> (1941) Holding Company Act Release No. 2897, 40 PUR(NS) 1.

<sup>11</sup> (1941) Holding Company Act Release No. 2626, 38 PUR(NS) 39.

## RE THE NORTH AMERICAN CO.

cause, under the particular circumstances there presented, it did not appear that such procedure would produce any substantial complications or result in any material delay. But in this case, where there are eight subsidiary holding company systems under North American, the combinations necessary in the making of findings under the (A), (B), (C), and "incidental business" standards, and in the issuance of alternative orders, would lead to extreme complications. Moreover, as distinguished from the fact that the alternative findings procedure adopted in the two cases cited was utilized only in the intermediate stages of those proceedings, this case has now reached the stage where hearings have been completed and where our findings and order can be based on a record presented to us as full and complete. Frequent calls have been made upon North American during the course of the proceeding from service of our original order of March 8, 1940, through the hearings and at oral argument, but it has refused to express any choice of a principal system. There has been little point to the labor of considering what purports to be a complete record if we are now merely to await the pleasure of North American before disposing of the issues. Nor can we disregard the fact that the statute makes it the "duty" of the Commission to require compliance with § 11(b) "as soon as practicable after January 1, 1938."

[2] Accordingly, in our opinion and order we have taken the integrated electric system operated by Union Electric Company of Missouri and its subsidiaries (the Union group) as the "principal system" retainable by North

American. Our reasons for basing our opinion and order on retention of the Union group as the "principal system" are (1) the indication by North American that it would prefer that choice, (2) we would regard the retention as appropriate if called upon to pass upon the choice of this system by North American.

(1) North American has, on several occasions, indicated that, if required to choose a principal system, it would choose the Union group. In the tentative program set forth in its answer, it contemplated retention of its "major investment" in the Union group, and use of the proceeds of liquidation of other holdings for the acquisition of properties which could be "integrated" with the Union group system. Its counsel, in oral argument, stated, as an "educated guess," that North American would choose to retain the Union group as the principal system if it were required to make an election.

(2) We would regard as appropriate the choice of the Union electric utility system as North American's principal system. As of July 31, 1940, Union Electric Company of Missouri had the following capitalization:

First mortgage and collateral trust bonds, 3½%, due 1962 .....	\$80,000,000
3% Notes, due 1942 .....	15,000,000
Advances on open account from subsidiaries .....	6,800,000
\$5 Cumulative preferred stock, no par .....	13,000,000
Common stock, no par .....	52,500,000
Surplus .....	10,200,000

North American calculates its equity in the assets of the Union system (including surplus) at 33.4 per cent of the total capitalization. It holds all of the common stock, representing 25.81 per cent of the total capitaliza-



## SECURITIES AND EXCHANGE COMMISSION

tion. This stock was carried on its books, at December 31, 1940, at \$51,-840,780. Union Electric Company of Missouri in turn has the following interests in the total capitalization, including surplus, of its principal operating subsidiaries:

Union Electric Company of Illinois	100%
Cupples Station, Light, Heat and Power Co. ....	100%
Mississippi River Power Company ..	44.53%
Iowa Union Electric Company ....	63.29%

Dividends received by North American from Union of Missouri in 1940 amounted to approximately \$5,-737,500, the largest amount paid up, in that year, by any of its subsidiaries. North American's investment in the Union system began in 1901. There have thus been forty years of investment contact with the Union properties.

Union of Missouri, together with the above-named subsidiaries, operates an electric utility system in the states of Missouri, Illinois, and Iowa. These operations are carried on in an area centering around St. Louis in the eastern part of Missouri, in adjoining territory in Illinois surrounding the city of East St. Louis, in an area surrounding a large hydroelectric plant at Keokuk, Iowa, and in and around a hydro plant at Osage, Missouri.

The total area served by the group contains 3,100 square miles and a population of 1,500,000. As of May 31, 1940, the group served a total of 351,-565 customers with electricity and, in the year ending on that date, produced a total of 2,579,520,155 kilowatt hours of current. Of a total name plate production capacity rating of 722,500 kilowatts, 237,000 kilowatts are hydro and 485,500 kilowatts are steam.

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All production facilities for electric operations of the group are at present physically interconnected and centrally controlled, and are coördinated without reference to differences in corporate ownership. Transmission line connections between generating stations make it possible to operate the system as an entity—coördinating, as economy and necessity require, the hydro and steam production units. The group owns transmission, subtransmission, and distribution lines and substations for the carrying of its produced current.

The operations in Missouri are subject to regulation by the Missouri Public Service Commission, and in Illinois by the Illinois Commerce Commission. Iowa Union Electric Company, which operates in Iowa, is subject to municipal rate regulation.

We find that these electric operations of the Union group constitute those of a single integrated electric utility system within the meaning of the act, and that the retention thereof as the principal system of North American satisfies the terms of § 11 (b) (1).

Although, for the reasons indicated, we have based our opinion and order on retention of the electric utility operations of the Union group as North American's principal system, we have decided to afford North American a further opportunity to present argument as to whether it desires any system other than the electric utility operations of the Union group as its principal system. Accordingly, we shall entertain a request for further argument in this respect and our order, in so far as it requires divestment by North American, will be subject to

## RE THE NORTH AMERICAN CO.

modification if, after presentation of further argument, such modification appears necessary.

### *B. The Additional Systems Retainable by North American*

Excluding subsidiaries of Light & Power, North American subsidiaries operate electric, gas, and other facilities in five distinct areas in addition to the St. Louis area of the Union group. These are the Washington area (including the District of Columbia and adjacent Maryland and Virginia territory) in which subsidiaries of Washington Railway and Electric Company operate; the Cleveland area (including that city and surrounding territory in northeast Ohio) in which Cleveland Electric Illuminating Company, a direct subsidiary of North American, operates; the Detroit area (including a large area surrounding that city in southeast Michigan) in which the Detroit Edison Company operates; the Wisconsin-Michigan region (including three areas, two centering respectively around Milwaukee in southeast Wisconsin and Appleton in east central Wisconsin, and one embracing a large part of the northern peninsula of Michigan and running south into Wisconsin) in which the Wisconsin Electric Power, Wisconsin Gas and Electric, and Wisconsin-Michigan companies (all direct subsidiaries of North American)<sup>12</sup> operate; and the California area, in which Pacific Gas and Electric Company operates.

<sup>12</sup> Since the closing of this record, we have approved transactions whereby North American has transferred its holding in the Wisconsin Gas and Electric Company and Wisconsin-Michigan Power Company to Wisconsin Electric Power Company (1941) Holding Company Act Release No. 2950.

Counsel for the Public Utilities Division has conceded, and we find, that the electric operations in each of the Washington, Cleveland, Wisconsin-Michigan, and Detroit areas constitute those of a single integrated public utility system within the meaning of the act.

[3, 4] It is of course clear that § 11 (b) (1) requires that a registered holding company divest itself of those of its utility subsidiaries which are not retainable as part of the holding company's principal system or as part of an additional system or systems meeting the requirements of the (A), (B), and (C) clauses of § 11(b) (1). *Re United Gas Improv. Co. (1941) Holding Company Act Release No. 2692*. It is clear, too, that the standards of the (A), (B), and (C) clauses for additional systems are in the conjunctive and that each must be satisfied to permit retention of additional systems.

North American claims that under the (A), (B), and (C) standards, it may retain the Union, Wisconsin-Michigan, and Cleveland systems. It has made no claim that these standards would permit the retention of any of the other systems operated by its subsidiaries.

For the reasons set forth below, we do not believe that the standards of the (A), (B), and (C) clauses of § 11(b) (1) permit the retention of any of these systems as "additional systems" to the Union group. We think that North American's claim is based on a misconstruction of the geographical limitations of clause (B), of the meaning of the phrase "substantial economies" in clause (A), and of the limitations of clause (C).

## SECURITIES AND EXCHANGE COMMISSION

### 1. *The Geographical Limitations of Section 11(b) (1) (B)*

[5, 6] The meaning of Clause (B) was the subject of extended consideration in the Engineers Public Service Company<sup>13</sup> Case. We there concluded that under clause (B) (even assuming compliance with clauses (A) and (C)) additional systems could be retained only if they are "located in a state in which such single system [i. e., the 'principal' system] operates, or in states adjoining such a state, or in a foreign country contiguous thereto."

The electric operations of the Union group, which we have taken as the principal system, are carried on in Missouri, Illinois, and Iowa. Clause (B), therefore, clearly bars the retention of the Cleveland, Washington, and California utility operations as additional systems. Whether the integrated electric utility system of the Wisconsin-Michigan companies can be retained under clause (B) as a system additional to the Union system depends on whether the former system is "located . . . in states adjoining" a state in which the Union group operates. Of course, Wisconsin and Illinois have common boundaries; but most maps leave ambiguous the status of Michigan and Illinois as "adjoining." The latter two states are, apparently, completely separated by Wisconsin, Indiana, and Lake Michigan. They "adjoin" only if their boundaries in fact meet in Lake Michigan. We have concluded that Illinois and Michigan may properly be regarded as "adjoining" by reason of common boundary lines.

"Illinois was admitted as a state with its present boundaries by resolution approved December 3, 1818 (3 Stat. L. 536). The enabling act defines these boundaries as follows (3 Stat. L. 429):

"The said state shall consist of all the territory included within the following boundaries, to wit: Beginning at the mouth of the Wabash river; thence up the same and with the line of Indiana, to the northwest corner of said state; thence, east with the line of the same state, to the middle of Lake Michigan; thence north along the *middle of said lake* to the north latitude 42 degrees 30 minutes; thence west to the middle of the Mississippi river; and thence down along the middle of that river to its confluence with the Ohio river; and thence up the latter river along its northwestern shore to the beginning."<sup>14</sup> (Italics supplied.)

"Michigan was admitted to the Union on January 26, 1837 (5 Stat. L. 144), with the proviso and boundaries given in the enabling act as follows (5 Stat. L. 49):

". . . thence (from the main channel of the Menomonic river) . . . to the center of the most usual ship channel of the Green bay of Lake Michigan; thence through the center of the most usual ship channel of the said bay to the *middle of Lake Michigan*; thence through the *middle of Lake Michigan*, to the northern boundary of the state of Indiana, as that line was established by the act of Congress of the 19th of April, 1816; thence due east, with the north boundary line of

<sup>13</sup> (1941) Holding Company Act Release No. 2897, 40 PUR(NS) 1.

<sup>14</sup> United States Department of the Interior, Geological Survey Bulletin 817, "Boundaries,

Areas, Geographic Centers, and Altitudes of the United States and the Several States" (2nd Ed.) p. 193.

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the said state of Indiana, to the northeast corner thereof; and thence, south, with the east boundary line of Indiana to the place of beginning."<sup>15</sup> (Italics supplied.)

Since we find that Michigan and Wisconsin adjoin Illinois, a state in which the Union group operates, we hold that the retention of the Wisconsin-Michigan system would not be barred by clause (B).<sup>16</sup>

North American's counsel has attempted to justify the retention of the Cleveland properties on the ground that:

"Wisconsin adjoins Illinois—we have properties in Wisconsin; Michigan adjoins Wisconsin—we have properties in Michigan, in the northern peninsula there; and we have properties in Ohio which adjoin [sic] Michigan." (Oral Argument, p. 58.)

This might be characterized as the "chain" theory of clause (B). Carried to its logical conclusion, it would permit the retention of properties from one coast of the country to the other, as long as the holding company retains property in each state of the chain of states. We think that the invalidity of this contention is too apparent to require further comment here. See our discussion of clause (B) in the Engineers Public Service Company Case, *supra*.

We conclude, therefore, that, based on the electric utility operations of the Union group as North American's principal system, clause (B) bars re-

tention of the systems of the Cleveland, Washington, and California companies. It does not bar retention of the integrated systems of the Wisconsin-Michigan group or of the Detroit Edison Company.<sup>17</sup>

Nevertheless, we have concluded that retention of the Wisconsin-Michigan or Detroit properties as additional systems to that of the Union group is not permissible under the standards of clauses (A) and (C).

### 2. The Standard of "Substantial Economies" in Section 11(b) (1) (A)

[7] We cannot permit the retention of "additional systems" by a registered holding company unless we find that the standards of clauses (B) and (C) have been satisfied and that, in accordance with clause (A):

"Each of such additional systems cannot be operated as an independent system without the loss of substantial economies which can be secured by the retention of control by such holding company of such system."

The phrase "substantial economies" in clause (A) refers to economies which may be secured by the systems themselves rather than to economies which may be secured by the holding company. This was the clear intent of Congress (see H. R. Rep. No. 1903, 74th Cong. 1st Sess. (1935) p. 71) and, in fact, argument by all counsel in this case has been premised on this view.

<sup>15</sup> *Id.*, p. 197.

<sup>16</sup> By the same reasoning, clause (B) would not bar retention of the Detroit Edison system as an additional system. However, North American has not claimed that such retention is permissible under the standards of clauses (A), (B), and (C), and has not attempted to prove compliance with the standards of

clauses (A) and (C), but has argued that its "investment" in that company may be retained on other grounds. This problem will be dealt with later in this opinion.

<sup>17</sup> The question of the retention of integrated systems or properties of subsidiaries of Light & Power as additional to the Union system is referred to in note 19, *infra*.

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Counsel for North American has, however, attempted to minimize the requirement of "substantial economies" and to argue that the phrase means only something more than "purely nominal" or "de minimis" economies. In support of this proposition, counsel has cited cases involving will contests, taxation, evidence, and exemption from the act under § 3(a)(1), 15 USCA § 79c (a) (1).

We think that the cases which have been cited are of little aid in the interpretation of the phrase "substantial economies" and that the phrase must, rather, be construed in the light of its context and the policy of the act. The normal and usual meaning of the word "substantial" is a meaning connoting "important." And we think that this normal and usual meaning is compelled here. The degree of importance must be measured against the vital policy to which clause (A) is an exception, i. e., the policy of limiting holding companies to the operation of a single integrated public utility system.

Some light on the background against which this clause was drafted may be found in certain remarks made by Senator Wheeler in interpreting the action taken by the Conference Committee on the legislation:

"After considerable discussion the Senate conferees concluded that the furthest concession they could make

would be to permit the Commission to allow a holding company to control more than one integrated system if the additional systems were in the same region as the principal system and *were so small that they were incapable of independent economical operation* . . . ."<sup>18</sup>

These remarks reinforce the conclusion that clause (A) was intended as a significant standard to be applied only where there was a strong reason for an exception to the general policy of permitting retention of only one integrated system. They are certainly not consistent with the suggestion of counsel for North American which, in effect, urges us to disregard the word "substantial." We conclude, therefore, that to warrant an exception to the limitation of a holding company system to a single integrated public utility system and to satisfy the standard of clause (A), respondent must show that important economies will be lost if the holding company's control of such system is severed.

On the basis of the record before us, we cannot find that "substantial economies" would be lost by the separation from the holding company relationship of any of the electric utility systems now operated by subsidiaries of North American.<sup>19</sup>

Cogent support for this conclusion is found in North American's stated

<sup>18</sup> 79 Cong. Rec. 14479 (Italics supplied.)  
<sup>19</sup> The retention of gas systems under the standards of clauses (A) and (C) is discussed *infra*, p. 278.

The utility properties of subsidiaries of Light & Power are, of course, part of the North American system. North American has presented no evidence or argument directed to the question whether any of these utility properties can be retained under the act along with the Union system and since we cannot, on the basis of the record, find that

such properties may be retained by North American as part of its principal system or as an additional system or systems meeting the (A), (B), (C) standards, we must order their divestment. However, our order requiring North American to divest itself of its interest in Light & Power and Light & Power's subsidiaries does not foreclose the filing of applications in the future looking to the possible integration of any of these properties with the retainable properties of North American.

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policy. It has, according to its counsel, operated for more than twenty years on the theory that "each operating group should have a strong localized management, which was aided by the advice and counsel of the holding company, to avoid the dangers of local stagnation."

As nearly as can be determined from the record in this case, North American leaves operations and operational policy to the managements of its subsidiaries. It certainly cannot claim that, in so far as the day-to-day operation of a public utility business is concerned, independence of the companies in its system will cause the loss of substantial economies.

North American rests its arguments under clause (A) on other grounds. The bases for its contentions in this respect are alleged to be (a) its assistance to subsidiaries in their financing, (b) its advisory and consultative facilities, and (c) the benefits from its intercompany committees.

(a) *Assistance in financing.* North American's participation in and domination over financing matters of its subsidiaries has, in the past, constituted North American's most important activity in its subsidiaries' affairs. Operating heads of its subsidiaries have testified to the completeness with which North American takes over the planning and handling of securities flotations. One by one they have disclaimed the ability to build, within their own groups, talent to meet their local financial problems. They have claimed that such talent would be expensive and that it would be wasted because of the infrequency of its exercise, if limited to individual groups.

While we cannot accept the premise

that the problems of financing independent public utility companies are too complicated and difficult for the average local management of average business capability, we are willing to make that assumption arguendo in testing North American's claim that it would be uneconomical for any of the subholding company systems to employ officers and a staff capable of handling financial problems.

In assessing this claim, the statements of North American counsel in argument before us are pertinent:

"North American's subsidiaries illustrate the tremendous growth problem and need for capital. Thus, the Wisconsin group which had outstanding \$15,764,000 in securities in 1900, rose to \$55,670,000 in 1920 and more than \$156,000,000 by 1940. The St. Louis group, with a capitalization of \$8,200,000 in 1904, rose to \$40,878,000 in 1920 and \$193,605,000 in 1940. Cleveland, when control was acquired by North American in 1922, had a total plant account of \$41,200,000 which increased to \$128,000,000 by 1930 and \$148,200,000 in 1940."

The Cleveland Electric Illuminating Company has, to date, issued 34 issues of debt securities, 13 issues of preferred stock, and 29 issues of common stock. The nature and amounts of the securities of the three Wisconsin-Michigan companies have fluctuated greatly year by year. The testimony on behalf of the Union group indicates that its financing problems are also of "considerable magnitude." North American has been forced to concede the magnitude of Union's financing. It would seem, in view of the contention that where there is little financing it is not economical to maintain a finan-

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cial staff, that Union should have such a staff because of its volume of financing. But here it is argued, somewhat inconsistently with the argument in respect of the other groups, that the maintenance of a local financing staff for the Union group would involve considerable expense and would not, for that reason, be advisable.

We think that North American's argument is, in fact, self-defeating. The normal development of a management faced with financing problems recurring as often as they do in the utility industry would appear to be toward familiarity with the problems involved. If we accept the testimony before us, it may well be the fact that North American's usurpation of the handling of its subsidiaries' financing problems has retarded that development in the managements of its subsidiaries.<sup>20</sup> But we are by no means convinced that it would be uneconomical for the subsidiary systems to maintain a personnel equipped to deal with their own local financial problems. And if it be the fact that the present managements of the system companies are incapable of holding their own in financial negotiations, independence will permit stockholders in those companies to substitute capable management.

<sup>20</sup> The president of Potomac Electric Power Company, principal operating subsidiary of Washington Railway and Electric Company, was forced, by reason of his denial of knowledge of financial matters, to admit that he was not competent to judge the success of his company in securities flotations effected with the aid of North American as compared with companies outside the system.

<sup>21</sup> The importance and value to a holding company of being able to dominate its subsidiaries' financing and to control the flow, through underwriting channels, of millions of dollars of securities are too obvious to need discussion.

<sup>22</sup> A questionable exception is the evidence

Although sufficient motives for active intervention in financing by North American, other than a desire to aid and assist its subsidiaries, may exist.<sup>21</sup> We are not concerned with them here. We hold that it has nowhere been shown that such financing could not have been done, and done without the loss of substantial economies, without North American's participation.<sup>22</sup>

The further argument has been made that severance of North American's control would deprive the subsidiary systems of an important source of financing. In support of this argument, North American's counsel has cited the testimony of a vice president of Wisconsin Electric Power Company to the effect that:

"... the North American Company, over the years, has been our financial backer and as a result we have been freer to devote our major attention to other phases of the business."

Advances by North American to its subsidiaries are cited to reinforce the argument.

Consideration of the record in this respect leaves us in no doubt, however, that severance of the subsidiary systems from North American would not deprive them of any "substantial econ-

bearing on the insistence of Edwin Gruhl in 1932 (while he was president of North American) that bonds to finance the Wisconsin-Michigan properties be issued to the extent of \$5,000,000 over the amount then needed. It was stated that the money was used to advantage in building a generating plant at low cost during the depression and that Gruhl's action was based on "great vision."

Refundings at lower interest rates within the past few years, cited as evidence of North American's aid, have certainly not been peculiar to the North American system. It is common knowledge that public utilities, as well as industry as a whole, have been enabled to scale down interest by advantageous refundings.

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omies" respecting the borrowing of money. In support of the above-quoted testimony the witness cited advances by North American to Wisconsin Electric Power Company in 1920 carrying interest at  $6\frac{1}{2}$  per cent. There have been no advances from North American to its subsidiaries since 1935. In fact, there were substantial periods when North American borrowed from its subsidiaries for the purpose of lending money in the call-money market.<sup>23</sup> Thus, Union Electric Company of Missouri at one time had balances as high as \$9,258,000 outstanding against North American, and in 1932, Wisconsin Electric Power Company had a balance due from North American in the amount of \$3,429,000.<sup>24</sup> Moreover, whereas interest rates paid by subsidiaries to North American for sums borrowed during the period from 1915 to 1930 varied from  $4\frac{1}{2}$  per cent to  $8\frac{1}{8}$  per cent, North American paid interest to its subsidiaries at a rate generally lower than current call-money rates. We certainly cannot find that the cessation of this credit interflow would result in the loss of "substantial economies" to the subsidiary companies.

(b) *Advisory and consultative facilities.* The operating heads of various North American subsidiaries have acknowledged indebtedness to North American for the advice and consultation afforded by its staff on management problems. It does appear that there has been some interchange of ideas with respect to budgeting, tax matters, major installations, and accounting matters. However, it

should be noted that North American's entire operating division consists of eight persons, including three clerks, two engineers, a rate specialist, and two executives who are not engineers.

There is nothing in the record to indicate that a cessation of this advice and consultation would cause the loss of any substantial economies to subsidiary systems. North American, it is claimed, holds itself open for advice and consultation "to avoid the dangers of local stagnation." This claim may be measured against the view uttered by one of North American's own witnesses:

"In the electrical industry as a whole, I refer to the utility industry primarily, there is a great freedom of interchange of ideas, facilities, and information."

We may assume that the character of the electric utility industry will not change so drastically in the future as to permit companies which have been severed from the North American system to fall into "local stagnation."

(c) *The intercompany committees.* North American subsidiaries (other than Light & Power and its subsidiaries, and Pacific Gas and Electric Company) have representation on three system committees which serve as a clearing house for technical and accounting information. The record indicates that the operation of these committees has been of some benefit to the participating companies. The same witnesses who testified to the value of the committees also testified that the committees could not survive a rupture in the affiliated status of the members. We are unable to understand why—if the value of the committees is so patent—the self-interest

<sup>23</sup> This practice was justified as "assistance" to subsidiaries "in earning some return on that money."

<sup>24</sup> In 1929 this balance was \$8,510,000.

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of the participating companies would not compel their retention. We see no obstacle to the retention of such committees outside the North American system and we think that their dissolution would only be proof of the insubstantiality of the "economies" resulting from them. We cannot find, therefore, that by reason of the inter-company committees substantial economies will be lost by the severance of North American's control of the subsidiary systems.

### 3. *The Standard of Size in § 11 (b) (1) (C)*

[8] Were North American to satisfy all of the limitations in clauses (A) and (B) with respect to the electric utility systems which it claims it can keep as additional systems to the Union group under the (A), (B), and (C) clauses, retention of these systems would nevertheless not be permissible, for we cannot find that such systems meet the tests posed by clause (C).<sup>25</sup> A holding company cannot retain, in addition to its principal system, any other system which results in a combination of systems "... so large (considering the state of the art and the area or region affected) as to impair the advantages of localized management, efficient operation, or the effectiveness of regulation."

The bulk of the service area of the Union group centers around St. Louis, Missouri. Such operations as it conducts in Illinois center around East St. Louis, directly across the Mississippi

river from St. Louis. The Wisconsin-Michigan properties spread from the northern boundary of the United States in the Michigan Peninsula to the southeastern part of Wisconsin, where the operations center around Milwaukee. The Detroit Edison Company operates in an area radiating out of Detroit, Michigan. The Cleveland properties serve an area surrounding the city of Cleveland and containing 1,700 square miles with a population of 1,500,000.

Clause (C) enjoins us to consider the "area or region" affected in determining whether the advantages of localized management, efficient operation, or the effectiveness of regulation will be impaired. We have indicated in the Engineers Public Service Company Case, *supra*, that the singular form of the phrase "area or region" in clause (C) is material in determining what additional systems are permissible under clause (B). The fact that this phrase is in the singular is material, also, in a determination of what is meant by the term "localized management" in clause (C). The language of that clause, taken together with the legislative history exhaustively commented on in the Engineers Case, makes it apparent that an intention is manifested to prevent retention of additional systems where such retention will result in control by the same interests of unrelated properties in widely separated areas.

The language of clause (C) finds an almost identical counterpart in the definition of an integrated electric utility system contained in § 2(a) (29) (A). That definition describes a system having certain physical characteristics and which is, further "...

<sup>25</sup> As has been stated, no attempt has been made by North American to show that any of the various subsidiary systems of Light & Power might be retained as additional systems to the Union group under the standards of clauses (A) and (C). See footnote 19, *supra*.

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confined in its operations to a single area or region, in one or more states, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation."

Similar language appearing in different sections of a statute is normally to be given the same meaning.<sup>26</sup> The use of this similar language in § 2(a) (29) (A) and in clause (C) of § 11 (b) (1), in our opinion, casts considerable light on the meaning of the size standards of clause (C) and would seem to indicate that similar considerations are involved in applying the size standards of clause (C) to a combination of principal and additional systems, as are involved in applying the size standards of § 2(a) (29) (A) to determine the maximum limits of a single integrated system. However, it is not necessary in this case to decide whether the act compels such a conclusion. Viewed in any light and standing by itself, clause (C) could not be satisfied by a combination of the Union group properties with those of the Wisconsin-Michigan, Detroit Edison, or Cleveland systems.

Milwaukee and St. Louis are 285 miles apart. Detroit and St. Louis are 415 miles apart. Cleveland and St. Louis are 424 miles apart. Each of the systems operating in the vicinity of these cities is a vast enterprise.<sup>27</sup> The operations of each center around a large city which dominates the life of the area surrounding it. Each is the focal point of a different "area or region," in a geographical, sociological, and operational sense.

We are not persuaded by North American's argument that the present local character of the management of its subsidiaries shows that a combination of the St. Louis, Wisconsin-Michigan, Detroit Edison, and Cleveland properties would satisfy the standards of clause (C).<sup>28</sup> As assured as we might be of the completeness of this localized management, it cannot be guaranteed that this policy of North American's management will remain unchanged or that the present management of North American will remain forever in power. Light & Power's policy with respect to localization of its subsidiaries' managements changed swiftly when North American assumed active control. So may North American's policy change with a

<sup>26</sup> *United States v. Cooper Corp.* (1941) 312 US 600, 85 L ed 1071, 61 S Ct 742.

<sup>27</sup> The Union group in 1939 sold 2,140,509,187 kilowatt hours to 249,096 customers in an area of 3,100 square miles. The consolidated capitalization of the Union group (including surplus) was \$203,444,978 at December 31, 1940.

The Wisconsin-Michigan group in 1939 sold 1,194,464,505 kilowatt hours to 250,770 customers in an area of 8,289 square miles. At December 31, 1939, the book value of the electric properties alone of these companies was \$140,315,612.

The property and plant account of the Detroit Edison Company, as of June 30, 1940, was \$327,619,644 before deduction of reserves.

The Cleveland system in 1940 sold 1,841,085,543 kilowatt hours to 330,000 customers in

an area of 1,700 square miles. As of December 31, 1940, the consolidated property and plant account of Cleveland Electric Illuminating Company was \$148,223,464 before deduction of depreciation reserves, and \$113,641,751 after such deduction.

<sup>28</sup> North American has stated that its unawareness of certain activities of persons connected with the management of the Union group (which activities have resulted in the recent conviction of Union Electric and its chief executive officer for wilful violation of § 12(h) of the Public Utility Holding Company Act), 15 USCA § 79i(h), illustrates the extent of its localization policies. If we accept this statement, it would seem to be persuasive evidence that North American's utility empire has grown too large for efficient management.



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changed management. We must, under the statute, look to size and the area or region affected, not to the policy of a particular management group, in making our determination.

For the reasons stated, we cannot find that a combination of either the Wisconsin-Michigan, the Detroit Edison properties, or the Cleveland system with the Union group would satisfy clause (C).

### 4. The Retention of Gas Systems

[9] The contention is urged upon us here, as it was in the Columbia Gas & Electric Corporation<sup>29</sup> and the United Gas Improvement Company<sup>30</sup> Cases, that gas and electric properties may be retained together as parts of a single integrated public utility system. That contention was considered and reconsidered at length in the above-mentioned cases, and rejected. No argument has been presented and no evidence has been adduced herein which would lead us to change our conclusion in this respect. On the authority of, and for the reasons discussed in, the Columbia Gas and United Gas Improvement Cases, *supra*, we hold that gas properties may be retained by North American only if such gas properties are part of an integrated gas utility system retainable as an "additional system" under the (A), (B), (C) standards of § 11 (b) (1).

Gas facilities are operated by both Wisconsin Gas and Electric Company and Wisconsin Michigan Power Company in the Wisconsin-Michigan group. Gas operations are also con-

ducted by the Detroit Edison Company, Pacific Gas and Electric Company, certain subsidiaries of Light & Power, and the Union group. We have determined that the electric utility systems operated by the Wisconsin-Michigan companies, the Detroit Edison Company, Cleveland Electric Illuminating Company, and Pacific Gas and Electric Company,<sup>31</sup> cannot be retained by North American in combination with the Union group and no attempt has been made to show that any of the electric utility systems operated by any subsidiary of Light & Power can be so retained. Since such relationships as have been shown between gas and electric operations deal with the gas and electric operations of each individual group, rather than with the gas operations of one group and the electric operations of another, there is no evidence which would permit us to find that any gas properties outside the Union group territory can be retained in combination with the Union group.

The gas operations in the Union group territory are conducted by Union Electric Company of Illinois, a subsidiary of Union Electric Company of Missouri, in Alton, Illinois; by Iowa Union Electric Company, also a subsidiary of Union Electric Company of Missouri, in Keokuk, Iowa; and by St. Louis County Gas Company, a direct subsidiary of North American, in an area surrounding the city of St. Louis. The gas operations of the three companies are located within the electric service territory of the Union group.

<sup>29</sup> (1941) Holding Company Act Release No. 2477, 37 PUR(NS) 288.

<sup>30</sup> (1941) Holding Company Act Release No. 2692.

<sup>31</sup> Respondents' argument with respect to retention of North American's interest in the Detroit Edison Company and Pacific Gas and Electric Company as "investments" is considered *infra*, p. 282.

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Although the gas operations of the Iowa and Illinois companies are relatively small, the total assets of the St. Louis County Gas Company amounted at May 31, 1940, to the substantial sum of \$9,944,909.

We find that the gas operations of the three companies constitute those of three integrated gas utility systems. It is clear that retention of these systems in addition to the electric operations of the Union group would satisfy clause (B). More difficult questions are presented, however, under the standards of clauses (A) and (C). Evidence has been introduced to show the use of joint personnel and facilities and close operating and managerial relationships between the gas and electric operations. It has been stated that the mutual performance of meter reading, billing, engineering, maintenance, and the like, as between Union of Missouri and St. Louis County Gas, alone, results in annual savings of \$230,000 per annum. There is no indication of the method by which this figure has been calculated. And, more important, there is nothing in the record from which we can compare the alleged economies resulting from use of joint personnel and facilities with the possible increased economies and efficiency which might result from the independent operation of the gas systems. Such a comparison would seem to be particularly pertinent to the question presented under clause (A)—whether the gas systems cannot be operated independently “without the loss of substantial economies which can be secured by the retention of control” of these systems and the electric operations of the group by the same holding company.

In many branches of consumer use, gas and electricity are natural competitors. Especially when both operations are conducted in the same territory, joint control creates the danger that one business may be suppressed in favor of the other or be made to carry the other. Economies claimed to result from joint operations must be measured against the possibility that independence will permit unsuppressed development and growth for both types of businesses.

We are not satisfied that this record contains an adequate exploration of the relevant evidence bearing on the question whether retention of these gas systems in addition to the electric operations of Union would satisfy the standards of clauses (A) and (C). We have therefore decided not to make any findings on this matter at this time. We shall direct that the record be reopened for the purpose of receiving further evidence bearing on the permissibility under the act of retention of the gas operations of the Union group—including those of the St. Louis County Gas Company—in addition to the electric operations of the group. To afford respondents and our staff an opportunity to prepare for the introduction of such evidence, our order setting the date for the further hearing will contain a statement of the specific matters upon which we desire to have additional evidence presented.

### *C. The “Other Businesses” Retainable by North American*

A registered holding company is required by § 11 (b) (1) to limit its operations to a single integrated public utility system, to such additional

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public utility systems as meet the standards of clauses (A), (B), and (C), and to "*such other businesses as are reasonably incidental, or economically necessary or appropriate to the operations of such integrated public-utility system. . . .*" The section provides further that "*The Commission may permit as reasonably incidental, or economically necessary or appropriate to the operations of one or more integrated public-utility systems the retention of an interest in any business (other than the business of a public-utility company as such) which the Commission shall find necessary or appropriate in the public interest or for the protection of investors or consumers and not detrimental to the proper functioning of such system or systems.*" (Italics supplied.)

North American controls directly certain companies engaged in the investment, real estate, and coal businesses. The Union group, in addition to the electric operations which we have determined may be retained by North American as an integrated public utility system, also conducts heating, real estate, coal, and railway businesses. It is claimed that interests in all of these businesses may be retained under the "other business" clauses of § 11 (b) (1). North American has also argued that it may retain its interests in the Detroit Edison Company and Pacific Gas and Electric Company as "investments" under these clauses.

In the course of argument respecting retention of nonutility interests, counsel for the respondents cited the American Water Works and Electric Company Case (1937) 2 SEC 972, in support of his contention that we are required to make "affirmative findings

. . . that North American may retain its minority utility investments and all of the other businesses controlled within the holding company system." We think it is clear that the American Water Works Case is not authority for the retention of all of the interests for which counsel contends. We think that it is appropriate here to define in broad outline the criteria which we believe must be considered in determining whether we can permit the retention by a public utility holding company of interests in businesses other than the electric and gas utility businesses.

[10] If it be recalled that the Commission may permit retention of an interest in a nonutility business as "reasonably incidental, or economically necessary or appropriate" to the operations of an integrated public utility system or systems, when it finds retention of such interest to be "necessary or appropriate in the public interest or for the protection of investors or consumers and not detrimental to the proper functioning" of such a system or systems; and if it be recalled that the phrase "public interest" is used in connection with the policy of curing evils which result "when the growth and extension of holding companies bears no relation to economy of management and operation or the integration and coördination of related operating properties" (§ 1 (b) (4)), 15 USCA § 79a (b) (4), it becomes apparent that the historical background of the joint control of a nonutility business with a utility business has little or no bearing on the permissibility of its retention in a public utility holding company system. Interests held for a long period do not, by

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reason of that fact alone, achieve any relation to "economy of management and operation" or "the integration and coordination of related operating properties." Indeed, it is the very purpose of § 11 (b) (1), to require the severance of those interests acquired in the course of the historical "growth and extension" of a holding company which do not satisfy the policy of the act.

[11] By the same token, the "substantiality and stability of income" afforded by nonutility interests is not, in and of itself, a factor warranting their retention in a public utility holding company system. Substantial and stable income might be afforded by businesses having no imaginable relationship to the economy of management and operation of integrated public utility systems. If the "other business" clauses of § 11 (b) (1) are not to be removed from their statutory context, and if we are to give full weight to the express standards and the policy of the act, we cannot find that any business is "reasonably incidental, or economically necessary or appropriate" to the operations of an integrated public utility system or is "not detrimental to the proper functioning" of such a system merely because it is profitable.

[12] The same considerations apply to economies resulting from joint use of personnel. Unless the nonutility business is such that resulting economies are *economies in the operation of an integrated utility system or systems*, the mere showing of economies is of little weight in determining whether the nonutility business may be retained.

With respect to many of the non-

utility properties involved in this proceeding, the claim has been made—apparently as an argument in favor of permitting retention—that great difficulty would be faced and losses would be sustained in disposing of such properties in compliance with a divestment order. The difficulty of disposing of an interest frequently results from the inability to find interested purchasers at a price which is equal to or more than the value at which such interest is carried on the books. Realistically, the sale of such properties does not always mean that a loss has been *sustained* at the time of the sale, but rather that it may have to be recognized at that time. Where it is clear that there is no market at any reasonable price and where disposition by any other method than sale is not feasible, a company which has been ordered to dispose of various interests may, under § 11 (c), request an extension of time for compliance with divestment orders.

[13] With respect to certain non-utility interests, respondents have argued that they need show no affirmative public benefit resulting from the retention of such interests, and they have argued, further, that we need find merely that retention of such interests is "compatible with the public interest."

To make the statutory finding which it is conceded we must make to permit retention of a nonutility interest requires, in our opinion, more than a showing that no positive harm will result from the retention. What do the phrases "public interest" and "proper functioning" of an integrated system in their context in § 11 (b) (1) mean? It is our view that they

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refer to the stated policy of the act to limit the activities of public utility systems to activities related "to economy management and operation" of the *public utility* system, and the "integration and coördination of related operating properties."<sup>32</sup> Compatibility with that interest, even if that is all that need be shown, requires a showing that the public interest will be furthered by retention of a nonutility interest by reason of its relation "to economy of management and operation" of a public utility system or systems or "the integration and coördination of related operating properties."<sup>33</sup> We cannot make the *affirmative* statutory findings necessary to permit retention unless the record contains such a showing.

In the course of this opinion the standards of the "other business" clauses will be applied to many non-utility businesses in the North American system. We have not thought it necessary to repeat the foregoing discussion in connection with each such interest, since our comments here are intended to apply generally.

### 1. *North American's Interests in the Detroit Edison Company and Pacific Gas and Electric Company*

[14] At the time these proceedings

were instituted, applications were pending with respect to both the Detroit Edison Company and Pacific Gas and Electric Company for orders under § 2 (a) (8) of the act declaring such companies not to be subsidiaries of North American. North American has argued that its interests in these companies represent merely "investments" and that their retention should be determined under the "other business" clauses of § 11 (b) (1).

However, on August 5, 1940, and September 10, 1941, respectively, we issued our findings and orders denying both of the applications under § 2 (a) (8).<sup>34</sup> It is clear, therefore, that both companies are subsidiaries of North American under the act and must be regarded as such in this proceeding. Since subsidiary utility companies may be retained in a public utility holding company system *only* where such subsidiary utility companies constitute part of the "single" or any additional integrated system or systems retainable by the holding company under § 11(b) (1) (Re United Gas Improv. Co. [1941]) Holding Company Act Release No. 2692, and since, for the reasons already stated, neither Detroit Edison nor Pacific Gas and Electric Company is part of the single integrated system or any additional inte-

cern apart from the public interest in the maintenance of an adequate rail transportation system; that it is used in a more restricted sense defined by reference to the purposes of the Transportation Act of 1920, of which the section is a part and which, as had been recognized in earlier opinions of this court, sought through the exercise of the new authority given to the Commission to secure a more adequate and efficient transportation system." (Italics added.)

<sup>34</sup> Re The Detroit Edison Co. (1940) 7 SEC 968, 35 PUR(NS) 65; Re Pacific Gas & E. Co. (1941) Holding Company Act Release No. 2988.

<sup>32</sup> See § 1(b)(4), *supra*.

<sup>33</sup> Compare *United States v. Lowden* (1939) 308 US 225, 84 L ed 208, 60 S Ct 248, where the Supreme Court was called upon to construe the phrase "public interest" as it appears in § 5(a)(4) of the Transportation Act of 1920. In reviewing a determination of the Interstate Commerce Commission upon an application for approval of a consolidation of railroad companies, the court said (308 US at p. 230):

"In *New York Central Securities Corp. v. United States* (1932) 287 US 12, 77 L ed 138, 53 S Ct 45, we pointed out that the phrase 'public interest' in this section does not refer generally to matters of public con-



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grated system which may be retained by North American, North American must divest itself of its interests in these companies.<sup>35</sup>

### 2. *North American's Direct Nonutility Subsidiaries*

(a) *North American Utility Securities Corporation.* This company was organized under the laws of Maryland in 1924, as a medium for the investment of North American's surplus funds. The company has not been active for some time. Its investment portfolio (consisting of securities whose market value as of December 31, 1940, was \$4,667,865)<sup>36</sup> yielded, in 1940, a net return of \$279,190. All of the outstanding preferred stock of the company, and 80.6% of the common, is held by North American. As of December 31, 1940, there were dividend arrears on the preferred stock amounting to \$25 per share, and there was apparently no equity for the common stock.

[15] The only argument made for retention of the interest of North American in North American Utility Securities Corporation is that it "contributes diversity to the North Ameri-

can system and in no way interferes with the operations of the utility subsidiaries of North American." On that narrow ground North American requests us to find that retention of the interest may be permitted under the "other business" clauses of § 11 (b) (1).

The extent to which diversity was sought in this venture may be tested by noting that one-third of North American Utility's assets consists of stock in a company (Pacific Gas and Electric Company) in which North American's direct and indirect investment is substantial enough to create a statutory parent-subsidiary relationship, and that 43.14 per cent of North American Utility's assets consists of utility investments. Moreover, the mere fact that an investment offers "diversity" affords no justification for its retention by a public utility holding company under the "other business" clauses of § 11 (b) (1). A contrary conclusion would require the Commission to permit public utility holding companies to operate any type of business, however remote its relationship to the utility business. As we have already pointed out, the standards of

<sup>35</sup> Petitions for review of our orders denying the § 2(a) (8) applications were filed by Detroit Edison and Pacific Gas and Electric Company. Our order in the former case was sustained by the circuit court of appeals for the sixth circuit (Detroit Edison Co. v. Securities and Exchange Commission (1941) 119 F(2d) 730, 39 PUR(NS) 193), and a petition for certiorari was denied by the Supreme Court (1941) 314 US —, 86 L ed —, 62 S Ct 105. The petition for review in the Pacific Gas and Electric Company Case, *supra*, is now pending in the circuit court of appeals for the ninth circuit. Against the possibility that our order in that case may be reversed on judicial review and that Pacific Gas and Electric may be found not to be a subsidiary of North American, we have thought it appropriate to give respondents the full benefit of our views and consider whether North

American might be permitted to retain its interest in Pacific Gas and Electric Company on the theory that such interest constituted a mere investment in a nonsubsidiary utility company. We have concluded, however, that even if North American's interest in Pacific Gas and Electric Company were so to be treated, we could not find it retainable under § 11(b) (1).

<sup>36</sup> Based on market values, its portfolio was distributed as follows:

Railroad common stock .....	3.37%
Utility common stock (including 56,900 shares of Pacific Gas and Electric Company common stock, representing approximately $\frac{1}{3}$ of total assets) .....	42.04%
Utility preferred stock .....	1.10%
Industrial common stock .....	52.33%
Industrial preferred stock .....	1.16%

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the "other business" clauses do not exist in a vacuum, but can be considered only in relation to the operations of public utility systems. The argument that mere diversity of investment justifies the retention by a holding company of an unlimited number of varied interests was presented at length to Congress at the time this legislation was under consideration. In enacting the statute and particularly in enacting § 11 (b) (1), Congress indicated clearly its rejection of this argument.<sup>37</sup> We cannot make the findings necessary under § 11 (b) (1) to permit the retention of North American's holdings in North American Utilities Securities Corporation, and we must therefore order North American to divest itself of these holdings.<sup>38</sup>

(b) *60 Broadway Building Corporation.* This corporation, all of whose stock is owned by North American, was formed under the laws of New York in 1924. It owns a 25-floor building at the address indicated in its name, in the financial district of New York. Only two floors and part of three others are occupied by North American. The remainder of the building is leased to various unaffiliated tenants.

As of December 31, 1940, 60 Broadway Building Corporation had assets of \$4,869,879, outstanding lia-

bilities represented by a mortgage of \$1,918,750 and open account indebtedness to North American of \$1,659,023, and common stock in the amount of \$100,000.

The building owned by this company was acquired by North American for investment purposes and, it is claimed, as a "hedge" against rising rents. During the period between 1928 to 1934, North American paid rent to the corporation at about half the rates charged to other tenants and, in addition, during the years 1928 to 1933, received dividends on its investment. The corporation's net income in 1940, before interest on the open account indebtedness, was \$49,293.

If it were clear that North American's holdings in this company represented merely an indirect ownership of appropriate office facilities, we should have no difficulty in holding that the interest could be retained under the act. However, when we consider the location and type of building owned by 60 Broadway Building Corporation and the fact that North American occupies only two floors and a portion of three others, out of the 25 floors in the building, there would seem to be some question whether ownership of this building is not more than ownership of appropriate office space. The record is not sufficiently complete on this point and we think it unnecessary

<sup>37</sup> "Diversification of risk is a matter of investment judgment to be undertaken by the individual investor or an investment trust, not by those actually controlling and managing operating companies." Report of Senate Committee on Interstate Commerce on S. 2796, p. 12, Report No. 621, 74th Cong. 1st Sess.

In discussing the argument based on geographic diversification of utility properties, the Senate Report states:

"Even if the argument of diversification were sound, it is outweighed by the political and general economic desirability of breaking

up concentrations of financial power in the utility field too big to be effectively regulated in the interest of either the consumer or the investor, and too big to permit the function of democratic institutions." (*Id.*, p. 12.)

<sup>38</sup> It is clear, of course, that whatever our finding as to North American Utility Securities Corporation itself, it could not be used by North American as a vehicle for indirect ownership of stock of Pacific Gas and Electric Corporation which, as we have already held, cannot be retained in the North American system.

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to decide the question at this time. It seems clear that when the North American system complies with § 11 (b) (1), the needs of North American in respect of office space will be very much altered. Accordingly, we have decided to reserve this question for further consideration in the light of the future needs of North American in this respect.

[16] (c) *West Kentucky Coal Company of New Jersey*. This company, which was formed in New Jersey in 1905, is engaged, directly and through subsidiaries, in mining coal in Kentucky. It has been stated that the company was organized to serve as a source of coal supply to the St. Louis operations but that, since this was found to be impracticable, the company's output has been sold almost exclusively to nonaffiliated purchasers. As of December 31, 1940, the total book value of the company's assets on a consolidated basis was \$16,274,885. North American holds all of its common stock and over 115,656 shares of a total of 120,000 shares of its preferred. In addition, there is a large open account indebtedness running from the coal company to North American. As of December 31, 1940, North American carried its investment in the stock of this company at \$3,801,351. The company's net income for 1940 (before preferred stock dividend requirements) was \$42,837.

The only argument advanced in support of the retention of this interest is that the mines operated by the company would afford a source of supply for the Union operations if other sources were closed off. There is no evidence that this contingency has occurred in the thirty-five years of the

coal company's existence. Moreover, Federal regulation of coal prices, the power to make priority orders, and the extent of labor organization indicate that contingencies affecting any source of supply of coal usable for electric generation may well affect other similar sources.

As we indicate below, in our discussion of the Union Colliery Company, there may be instances in which we can find that ownership of the source of a system's requirements of a vital necessity for utility operations is "reasonably incidental, or economically necessary or appropriate" to the operations of an integrated electric utility system under § 11 (b) (1). However, as has been noted, the output of West Kentucky Coal Company is not used by North American but is sold almost exclusively to nonaffiliated purchasers. It is clear, therefore, that North American's holdings in the company do not represent ownership of a vital commodity used in the operations of the public utility system but that they represent merely an investment in a business which bears no relation whatever to the system's permissible utility operations.

Accordingly, we cannot find that retention by North American of West Kentucky Coal Company of New Jersey and its subsidiaries is permissible under § 11 (b) (1).

### 3. "Other Businesses" of the Union Group

[17] (a) *Steam heating business*. Union Electric Company of Missouri, top company in the Union group, provides steam heat in St. Louis from boilers located in the so-called Ashley street steam generating station. A to-

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tal of 414 customers are thus served, and, in 1939, \$750,510 of revenue was derived from that business.

The evidence indicates joint use of facilities and personnel in the steam and electric operations. It has also been shown that the joint operations of the steam and electric facilities are closely related. During summer, hydroelectric production must be backed by steam generation because of low water conditions. At the same time the heating peak is low. When the hydro capacity goes up in winter and requires less steam generation backing, boilers may nevertheless be kept in continuous operation to supply the additional heat. On the basis of the record before us, we find that this steam heating business is reasonably incidental and economically necessary or appropriate to the operations of the electric utility system and that it may be retained under § 11 (b) (1).

[18] (b) *Union Colliery Company*. This company is a direct subsidiary of Union Electric Company of Illinois,<sup>39</sup> which holds all of its outstanding securities. It operates a mine at Dowell, Illinois, about 85 miles southeast of St. Louis. For the year ended June, 1940, it produced 1,260,000 salable tons of coal, of which 1,010,000 were sold to the Union group for use in its electric utility operations. This represents most of the coal used by the

Union group. Union Colliery's property account, as of September 30, 1940, amounted to \$2,375,000. It had a net income in 1939 of \$61,408.

North American claims that ownership of this mine represents ownership of a commodity vital to the electric operations of the Union group and affords a continuous supply of coal to the group. It is stated that this continuous supply is particularly important because of the wide variations at different periods in the group's need for coal.<sup>40</sup>

The distinctions between the problems presented with respect to retention of the Union Colliery Company and the West Kentucky Coal Company (see p. 285, *supra*) are, in our opinion, sufficient to warrant different conclusions. First, although West Kentucky Company sells very little of its coal to the Union group, over 80 per cent of the entire output of the Colliery mines is actually used by the Union group for generating operation. Second, the Collier Company's mines, which are located close to the utility operations of the system, have been demonstrated by experience to be a convenient and economical source of a commodity vital to the system's electric utility operations. Third, the economies shown to result from joint operation of the Colliery Company and the Union group<sup>41</sup> have been clearly

<sup>39</sup> Union Electric Company of Illinois is in turn a subsidiary of Union Electric Company of Missouri. It owns generating plants in Illinois at Cahokia and Venice, adjacent to St. Louis, and serves the East St. Louis, Illinois, territory with electricity.

<sup>40</sup> The Union group uses steam and hydroelectric generators. Of a total name plate generating capacity of the Union group of 722,500 kilowatts, 237,000 kilowatts are hydro capacity, afforded by generators at Osage, Missouri, and Keokuk, Iowa. The generat-

ing policy of the Union group is to supply hydro power to the highest available extent, and thereafter to run steam stations to supply additional loads in the order of their efficiencies. The seasonal variations in available hydro power result in variations in the use of steam generators, and consequent variations in the consumption of coal.

<sup>41</sup> *E. g.*, performance of electrical engineering for the Colliery Company by Union group engineers, use of joint office and automotive facilities and personnel.

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shown to be related to the economic and efficient management of the electric utility system. Fourth, the Colliery Company is wholly owned by Union and appears to be operated as a mere department of the Union group.

For these reasons, we cannot agree with the contention of counsel for the Public Utilities Division that this interest cannot be retained in the system. We find the business of the Union Colliery Company to be reasonably incidental, or economically necessary or appropriate to the electric utility operations of the Union group and hold that it is retainable by the Union group and North American.

(c) *Union Electric Land and Development Company*. This company, a direct subsidiary of Union Electric Company of Missouri, was formed in 1929 to acquire land needed for the development of a hydroelectric plant, at the Lake of the Ozarks. The land is no longer desired for that purpose, and the company is at present engaged in a program of liquidating its holdings, which, as of September 30, 1940, were valued at \$1,940,000. Although we have been requested by counsel for the Public Utilities Division to find that this business is reasonably incidental, or economically necessary or appropriate to the operations of the integrated public utility system of the Union group, we cannot do so. There is no evidence in the record to justify a finding that the business of the company is retainable under § 11 (b) (1). Indeed, the fact that a voluntary program for liquidation of the company's holdings has been undertaken is some evidence that respondents do not regard the business as economically nec-

essary or appropriate. Should time beyond a year be necessary for liquidation, respondents may apply, under § 11 (c), for an appropriate extension.

[19] (d) *Union group transportation business*. The St. Louis and Belleville Electric Railway Company, a wholly owned subsidiary of Union Electric Company of Missouri, owns and operates a freight line 11 miles long, on a single track from Belleville, Illinois, to East St. Louis, Illinois. Its investment in railroad property amounts to about \$1,300,000. It employs about sixty men. It owns an aggregate of 450 coal cars, many of which it leases to other roads.

The road has had an average net income of \$56,000 per annum for the years 1930-1940. It did not, at any time during this period, operate at a loss.

Respondents have argued that the railroad is related to the utility operations of the group in the following respects:

1. Coal is the road's principal cargo, and it moves a large portion of the coal consumed by the group; this business amounted to about 88 per cent of all the coal hauled by the road between 1935 and 1940;<sup>42</sup>

2. Purchasing, certain warehousing, accounting, recording, property valuation, and tax matters are centrally handled for the railway company, as for other companies in the Union group;

3. The railroad purchases current used in its operations from Union Electric Company of Illinois.

Respondents contend that owner-

<sup>42</sup> The record does not indicate the precise extent of other business done by the road for unaffiliated interests.



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ship of the road is of great advantage to Union's utility operations and that its retention should be permitted on the ground that such retention provides an assurance against car shortage—a dire contingency for coal consumers which occurred during the first World War.

We cannot agree with the latter contention. As common carriers, railroads have the duty of offering service to all who will pay for it. The jurisdiction of the Interstate Commerce Commission to control the supply of cars,<sup>43</sup> the possibility of car rationing, and priorities and allocation orders by agencies of the government to meet critical transportation needs, make it unlikely that ownership of the road will result in any material advantage, or that nonownership will cause any material disadvantage in the event of car shortage.

We have, however, permitted, as reasonably incidental and economically necessary or appropriate to North American's utility operations, the retention of the coal mines of Union Colliery Company. It appears that the St. Louis and Belleville Railway is merely a single-track freight line 11 miles long used primarily for the transportation of coal coming from the Union Colliery mines to the Union group. Under the circumstances and having particular regard to the size, location, and use of the road, we find it to be reasonably incidental and economically necessary or appropriate to the electric operations of the Union group, and we hold that it may be re-

tained in the North American system. We think it appropriate to indicate that our finding in this respect approaches what we believe to be the limits of vertical ownership permitted under the act. And if it should appear in the future that the railroad no longer bears the same relation to the utility operations of the Union group, it might well be necessary to require its divestment from the North American and Union Electric systems.

[20] (e) *Dormant companies.* East St. Louis & Suburban Railway Company and East St. Louis Railway Company, both subsidiaries of Union of Missouri, are completely dormant. It is claimed that these companies are kept alive because of the pendency of litigation arising out of suits commenced while the companies still had assets. No attempt has been made to show that retention of these companies by North American or Union Electric of Missouri would meet the standards of the "other business" clauses of § 11(b) (1). Disposition of Union of Missouri's holdings in these companies must be ordered.

#### 4. "Other Businesses" of the North American System

Many of the other subsidiary holding companies and public utility companies controlled by North American own nonutility assets or securities of nonutility companies and engage in nonutility businesses. Many of these nonutility businesses are discussed in the course of this opinion. We have not, however, thought it necessary to consider in any detail the nonutility businesses conducted by the Wisconsin-Michigan group, Cleveland Electric Illuminating Company, The De-

<sup>43</sup> Transportation Act of 1920; see §§ 1(1), (11), (12), (13), (14), and (15). See Monograph No. 11 of the Attorney General's Committee on Administrative Procedure (Sen. Doc. No. 10, 77th Cong. 1st Sess.) pp. 63-65.

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troit Edison Company, or Pacific Gas and Electric Company. Such evidence as exists in the record with respect to the nonutility businesses of these companies or their subsidiaries indicates no relationship whatever between such business and the utility operations of the Union group. The only relationships shown have been with respect to the operation of the above-named companies. Since we cannot find that there is any relationship between these nonutility businesses and the utility operations of the Union group, we must hold that they cannot be retained by North American under the "other business" clauses of § 11(b) (1).

### *Conclusions with Respect to the North American System*

In accordance with the foregoing, our order will require North American to divest itself of all of its holdings of securities, direct and indirect, except the securities of Union Electric Company of Missouri, Union Electric Company of Illinois, Mississippi River Power Company, Iowa Union Electric Company, Cupples Station Light, Heat and Power Company, and St. Louis County Gas Company (whose electric operations we have found to constitute North American's principal integrated utility system and whose gas operations we have reserved for further consideration), those of Union Colliery Company and St. Louis and Belleville Electric Railway Company (whose businesses we have found to be reasonably incidental, or economically necessary or appropriate to the retainable utility operations of the North American system), and those of 60 Broadway Building Corporation (which we have reserved for future consideration).

[19]

As we have indicated, we have determined to afford North American a further opportunity to present argument with respect to the choice of its principal system. Accordingly, we shall provide that our order, in so far as it requires divestment by North American, shall be subject to modification if a request is made for opportunity to present further evidence or argument in this respect, and if such further evidence or argument warrants modification.

We proceed to consider the application of § 11(b) (1) to the subholding company respondents.

### *II. The Holding Company System of Union Electric Company of Missouri*

Our discussion with respect to the North American system includes our views on the application of § 11(b) (1) to the Union Electric Company of Missouri as a registered public utility holding company. In accordance with the views there expressed, Union Electric Company of Missouri will be permitted to retain the electric properties of the Union group, which we have found constitute an integrated electric utility system, and—subject to our further consideration of their retainability under the act—the gas properties of Union Electric Company of Illinois and Iowa Union Electric Company. Union Electric of Missouri will also be permitted to retain its steam heating business and the interests in Union Colliery Company and St. Louis and Belleville Electric Railway Company, which we have found may be retained under the "other business" clauses. Union Electric will be directed to divest itself of its holdings

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in Union Electric Land and Development Company, East St. Louis & Suburban Railway Company, and East St. Louis Railway Company.

### *III. The Holding Company System of Washington Railway and Electric Company*

Washington Railway and Electric Company (Washington Railway), a direct subsidiary of North American and a registered holding company, has the following direct and indirect subsidiaries: Potomac Electric Power Company (PEPCO), Great Falls Power Company, the Washington and Rockville Railway Company of Montgomery County (Washington and Rockville), Braddock Light & Power Company Incorporated (Braddock), Capital Transit Company, Montgomery Bus Lines, Incorporated, and the Glen Echo Park Company.

Washington and Rockville, itself a registered holding company, holds all the stock of Braddock and 33.32 per cent of the stock of Great Falls Power Company. Capital Transit Company holds all the securities of Montgomery Bus Lines, Incorporated, and of The Glen Echo Park Company.

The operations of the system controlled by Washington Railway consist of electric operations conducted in the District of Columbia and adjacent portions of Virginia and Maryland, a transportation business conducted in the District and adjacent portions of Maryland, the ownership of certain real estate bordering on the Potomac river, and the operation of an amusement park in Maryland.

PEPCO and Braddock conduct the electric operations of the group. The real estate operations are conducted

by Great Falls Power Company; the transportation operations by Capital Transit Company and Montgomery Bus Lines, Inc. The amusement park is owned by the Glen Echo Park Company.

#### *A. The Principal System*

PEPCO owns an interconnected system of generating, transmission, and distribution facilities in the District of Columbia. Although Braddock is maintained as a separate corporate entity, its territory is contiguous to PEPCO's and it receives all its power from PEPCO sources through interconnections therewith. We find that the utility operations conducted by PEPCO and Braddock together constitute those of a single integrated electric utility system and that these companies are retainable as such by Washington Railway. Since these are the only utility operations of the system, the only other issues to be disposed of with respect to this system are those arising under the "other business" clauses of § 11(b) (1).

#### *B. The "Other Businesses" Retainable by Washington Railway*

##### *1. Great Falls Power Company*

This company holds title to about 1,050 acres of land bordering the Potomac river. All of its securities are held within the Washington group, 66.68 per cent by Washington Railway, and the remainder by Washington and Rockville. The assets of the company are carried on its books at about \$510,000. Camp sites have been erected on the property, and their operation has enabled the company to meet taxes.

[21] Respondents have expressed

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the opinion that sale of this real estate should be withheld until a "more favorable" market has developed. But, as we have pointed out, considerations of this sort relate only to the time at which compliance with a divestment order should be enforced and have no pertinency to the question whether retention of the real estate is permissible under the act. Respondents make the further argument that a certain Joint Resolution of Congress permits the retention of this company free of any order of this Commission. For the reasons hereinafter set forth in our discussion of this question in connection with Capital Transit, we believe that this argument does not override the express mandate of § 11(b) (1) and is no bar to an order of divestment. Neither claim has any bearing on whether the business of this company is reasonably incidental, or economically necessary or appropriate to the operations of the single integrated public utility system controlled by Washington Railway. We think it is clear that such a real estate investment does not meet the standards of the "other business" clauses of § 11(b) (1) and that it cannot be retained by Washington Railway or Washington and Rockville.

### *2. Capital Transit Company and Its Subsidiaries*

As of December 31, 1940, Capital Transit's capitalization was:

Funded debt (including maturities payable within one year) .....	\$15,490,869
Capital stock, 240,000 shs. of \$100 par .....	24,000,000
Capital surplus .....	1,715,839
Earned surplus .....	2,890,375
Debt retirement reserve (appropriated surplus) .....	300,410
<b>Total .....</b>	<b>\$44,397,493</b>

During 1940 the gross income of Capital Transit Company was \$1,878,364, and its net income carried to surplus, \$872,081. Fifty per cent of the stock of Capital Transit is owned by Washington Railway and in 1940 was carried on its books at \$19,833,441.

Capital Transit does practically all of the bus and trolley business in the District of Columbia and the adjacent portions of Maryland which it serves. It owns 621 miles of track, 665 street cars, 80 miscellaneous cars, and 666 busses. It employs 3,709 people and its payroll for the year 1939 was \$6,-099,684.

In support of their contention that these properties may be retained, respondents point to the long historical association between the electric and transportation properties of the system. Washington Railway was, in 1899, put under the control of Washington Traction and Electric Company in conjunction with several electric companies whose assets Washington Railway later purchased. In 1902 PEPCO acquired these electric utility assets from Washington Railway. In the course of a unification of traction properties in the District, Capital Transit Company in 1933 took over the traction properties controlled by Washington Railway in exchange for its own stock, which stock was acquired by Washington Railway pursuant to a Joint Resolution of Congress.

There is evidence of some joint ownership of electric facilities by PEPCO and Capital Transit Company, and use by PEPCO of facilities owned by Capital Transit and by Capital Transit of certain of PEPCO's facilities. In addition, where equipment owned by Capital Transit Com-

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pany is situated on property owned by PEPCO, PEPCO's operating force cares for it. There is, however, only one employee of either company who is paid by both.

Montgomery Bus Lines, Incorporated, a subsidiary of Capital Transit, operates a bus line from the District into Rockville and Gaithersburg, Maryland. All of its equipment is rented from Capital Transit Company.

The Glen Echo Park Company, another subsidiary of Capital Transit, operates an amusement park in Maryland, not far from the District. It is claimed that this business serves to increase traffic on Capital Transit Company lines, and that it is remunerative.

[22] Counsel for North American have argued not only that this vast enterprise, itself a highly complex and individuated business, is "reasonably incidental, or economically necessary or appropriate" to the operations of the single integrated electric utility system of PEPCO and Braddock, but that, in any event, it is beyond our power to order a divestment of Washington Railway's interest in this business.

The latter argument is based on the above-mentioned Joint Resolution of Congress of January 14, 1933, which provided (47 Stat. 752):

"That the Washington Railway and Electric Company is hereby authorized and empowered to retain and hold stocks and bonds as provided in said unification agreement. . . ." As noted above, this Resolution related, inter alia, to Washington Railway's acquisition in 1933 of the Capital Transit stock. Respondents assert that it is "a fundamental principle of

statutory construction that *general* provisions in a later statute will not be deemed to repeal the *specific* provisions of an earlier statute," and that, therefore, no mandate of the Public Utility Holding Company Act of 1935 can be construed to require divestment of these holdings. It is urged, further, that it "may be assumed" that in passing the Joint Resolution of 1933, "Congress had in mind" the general criteria later to be laid down in § 11 (b) (1) of the Public Utility Holding Company Act.

We are not persuaded by this reasoning. Its weakness is illustrated by the very quotations from decided cases given in counsel's brief. Thus, *Rodgers v. United States* (1902) 185 US 83, 87, 88, 46 L ed 816, 22 S Ct 582, is cited for the proposition that:

" . . . the fact that the one [act] is special and the other is general creates a presumption that the special is to be considered as remaining an exception to the general, and the general will not be understood as repealing the special, unless a repeal is expressly named, or *unless the provisions of the general are manifestly inconsistent with those of the special.*"<sup>44</sup> (Italics supplied.)

We think it is clear that the two acts are manifestly inconsistent, within the meaning of the rule laid down in the *Rodgers Case*, *supra*. The Joint Resolution was addressed to a specific situation presented to Congress by private parties to facilitate private action by a corporation subject to the power of Congress. But the declaration of Congress in 1935, that a public utility holding company system must be limit-

<sup>44</sup> See, too, *Washington v. Miller* (1914) 235 US 422, 428, 59 L ed 295, 35 S Ct 119.



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ed to a single integrated public utility system, permissible additional systems, and such businesses as are reasonably incidental or economically necessary or appropriate thereto, is clearly a sufficient warrant to us to order compliance by Washington Railway with the mandate of § 11(b) (1).

"No principle is better settled than that a special charter to any corporation to engage in a business of a public or quasi public nature cannot be set up as exempting the institution from that regulation by the state in the exercise of its police power which the public necessity demands." *Citizens Bank & Trust Co. v. Mabry* (1931) 102 Fla 1084, 136 So 714, 716.

See, too, *Texas & N. O. R. Co. v. Miller* (1911) 221 US 408, 55 L ed 789, 31 S Ct 534; *State ex rel. Davis v. Knight* (1929) 98 Fla 891, 124 So 461; *Kentucky Power & Light Co. v. Maysville* (1929) 36 F(2d) 816, PUR 1930B 505; and cf. *Hammond Packing Co. v. Arkansas* (1909) 212 US 322, 53 L ed 530, 29 S Ct 370.

We have set forth at length, heretofore, our views as to the meaning of the "other business" clauses of § 11 (b) (1). Nothing presented to us respecting retention of Capital Transit Company or its subsidiaries has convinced us that we can find, in accordance with those views, that the retention of such transportation properties and amusement park is reasonably incidental, or economically necessary or appropriate to the operations of the integrated electric system of PEPCO and Braddock under the standards of § 11(b) (1). Indeed, we think that one of the clearest congressional objectives, in enacting § 11(b) (1), was to require that public utility holding

company systems divest themselves of huge investments in unrelated fields such as the vast and complex transportation business of Capital Transit and the amusement park of the Glen Echo Park Company.

Washington Railway and Electric Company will be required to limit its operations in accordance with the foregoing. Accordingly, it will be directed to dispose of all interests, direct and indirect, in Great Falls Power Company and Capital Transit Company and its subsidiaries.

### *IV. The Holding Company System of Washington and Rockville Railway Company of Montgomery County*

As we have indicated in our discussion respecting Washington Railway, Washington and Rockville will be required to divest itself of its holdings in Great Falls Power Company. Since the holding of Braddock and Great Falls Power stock constitutes the only business of Washington and Rockville, and since we have found that the properties of Braddock constitute part of an integrated utility system retainable by Washington Railway and by Washington and Rockville, this is the only action necessary for Washington and Rockville to comply, as a registered holding company, with § 11(b) (1).

### *North American Light & Power Company*

As previously noted, we have ordered the dissolution of Light & Power pursuant to § 11(b) (2) of the act. (1941) Holding Company Act Release No. 3233, 41 PUR(NS) 306. We assume that Light & Power will be dissolved in accordance with our order

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and that there will no longer be a holding company system headed by Light & Power. Under the circumstances, we find it unnecessary to consider the requirements of § 11(b) (1) as they affect the Light & Power system. However, the dissolution of Light & Power will not, in and of itself, avoid the necessity for applying the mandate of § 11(b) (1) to the holding company systems headed by subsidiaries of Light & Power which are themselves registered holding companies. These subholding company systems are headed by Northern Natural Gas Company and Illinois Traction Company (both of which are direct subsidiaries of Light & Power), Illinois Iowa Power Company (a subsidiary of Illinois Traction), and Des Moines Electric Light Company (a subsidiary of Illinois Iowa Power Company).

### *V. The Holding Company System of Northern Natural Gas Company*

Northern Natural Gas Company is a Delaware corporation, organized in 1930, with offices at Omaha, Nebraska. At the time this record was closed, 35 per cent of its common stock was held by Light & Power, 35 per cent by United Light and Railways Company, a subsidiary of United Light and Power Company, and 30 per cent by Lone Star Gas Corporation.<sup>45</sup> Northern is itself an operating company as well as a registered holding company.

<sup>45</sup> Since the close of the record in this proceeding, applications have been filed for approval of a reclassification of Northern Natural Gas Company's stock preliminary to a proposed public offering of the holdings of North American Light & Power in that company and for approval of such an offering. The former application has been approved. Re Northern Nat. Gas Co. (1941) Holding Company Act Release No. 2815. The pro-

It owns transmission lines and sells natural gas at wholesale for redistribution and for industrial use. Its transmission lines, which constitute the major portion of its assets, tap fields in Texas and Kansas and run for a distance of 2,783 miles through Oklahoma, Kansas, Nebraska, South Dakota, Iowa, and Minnesota. Northern is not a "gas utility company" as that term is defined in § 2(a) (4) of the act.<sup>46</sup>

Northern owns all of the common stock of its two subsidiaries, Peoples Natural Gas Company and Argus Natural Gas Company. Peoples and Argus maintain facilities for the sale of natural gas at retail and are gas utility companies within the meaning of the act.

Peoples sells natural gas at retail in 66 cities and towns in 3 separate areas located in eastern Nebraska, central Iowa, and southern Minnesota (which latter area laps over into northern Iowa). In 1940 Peoples served a total of 19,513 customers with over 3,500,000 thousand cubic feet of gas. All of Peoples' gas supply is derived from its parent, Northern.

Argus' properties are located in southwestern Kansas. It sells natural gas in 15 communities and 7 counties in that part of the state, and in 1940 served 5,575 gas customers to whom 2,337,860 thousand cubic feet were sold. Argus owns about 200 miles of

ceeding in respect of the latter application is still pending.

<sup>46</sup> Section 2(a)(4) provides, in part: "Gas utility company" means any company which owns or operates facilities used for the distribution at retail (other than distribution only in enclosed portable containers, or distribution to tenants or employees of the company operating such facilities for their own use and not for resale) of natural or manufactured gas for heat, light, or power."

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gas transmission lines and distribution systems connected thereto. It purchases its gas requirements principally from nonassociated producers in the Kansas Hugoton field and to a small extent from its parent, Northern.

Northern, Peoples, and Argus, taken together, serve areas aggregating 25,000 square miles, containing a population of 850,000 persons. On a consolidated basis, as of December 31, 1940, the group had fixed assets carried on the books at \$55,384,707,<sup>47</sup> and total operating revenues for 1940 of \$12,857,002. During 1940, the group sold 55,873,808,000 cubic feet of gas.

Counsel for Light & Power have requested us to find that the operations of Northern, Peoples, and Argus constitute those of a single integrated gas utility system. Such a finding cannot be made under the statute.

Section 2(a) (29) (B) defines an integrated gas utility system as one—"consisting of one or more gas utility companies which are so located and related that substantial economies may be effectuated by being operated as a single coördinated system confined in its operations to a single area or region, in one or more states, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation: *Provided*, That gas utility companies deriving natural gas from a common source of supply may be deemed to be included in a single area or region."

As has been noted, Argus purchases

almost all of its gas from nonaffiliated sources, while Peoples acquires its gas from Northern. The operations of the Argus properties have a much less important relationship to those of Northern than do the operations of Peoples. Moreover, there are important differences in their methods of operation. From the evidence in the record we cannot find that there are substantial economies, or indeed any economies, resulting to Argus from joint ownership and control of its properties together with Peoples. Accordingly, Argus cannot be regarded together with Peoples and Northern as part of a single integrated system and it can be retained in combination with Peoples only if its retention satisfies the standards of the (A), (B), (C) clauses.

### *A. The Principal System*

We must, in order to dispose of the issues before us, base our opinion on one of the integrated systems controlled by Northern as the "principal system." Northern has not indicated any choice in this matter. For the reasons hereinafter set forth we have concluded that clauses (A) and (C) would bar the retention by Northern of both Peoples and Argus. Since the Peoples system has assets valued at \$2,835,241 as against Argus' assets of \$2,598,858, since Peoples' net income for 1940 was \$203,137 as against Argus' \$100,242, and since, for the reasons hereinafter discussed, we find that Northern can retain its directly owned transmission lines along with Peoples (while such retention could probably not be permitted if Argus were kept as the principal system). We assume that, faced with a

<sup>47</sup> Of this total, Northern's fixed assets were carried at \$49,753,568, Peoples' at \$2,835,241, and Argus' at \$2,598,858.

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choice, Northern would elect Peoples as its principal system. We should not be disposed to question such a choice. Consequently, we shall base the remainder of our discussion and our order on Peoples as the principal system in the Northern holding company group. However, we will afford Northern a further opportunity to present argument, if it so desires, with respect to this question.

It has been suggested that the transmission lines of Northern may be considered together with the properties of Peoples as a single integrated gas utility system. As we have pointed out, however, Northern is not a gas utility company within the meaning of the act and there is considerable question whether, under § 2(a) (29) (B), the facilities of companies which are not gas utility companies can be regarded as part of an integrated gas utility system. The definition in § 2 (a) (29) (B) refers exclusively to "gas utility companies," and it is suggested that this exclusive reference precludes any intention to comprehend within an integrated gas utility system companies which are not gas utilities under the act. However, we need not now decide this question since, for the reasons hereinafter stated, we find that in any event Northern can retain the transmission lines along with Peoples under the "other business" clauses of § 11 (b) (1).

### *B. The Additional Systems Retainable by Northern*

Taking Peoples as the principal system, the retention of Argus would satisfy clause (B) of § 11(b) (1) since Argus is located in Kansas and some

of Peoples' properties are located in Nebraska, which adjoins Kansas.

[23] As we have stated, the evidence in the record is insufficient to enable us to determine that there are substantial economies, or indeed any economies, recalling from joint ownership of Peoples' and Argus' properties. Argus purchases most of its gas from nonaffiliated sources, while Peoples acquires almost all of its gas from Northern. There are physical differences in the properties of Argus and Peoples; different installation standards, different practices respecting meter ownership and testing. We could not, therefore, make the finding required by clause (A) to permit the retention of Argus as an additional system. However, even were such a finding possible, clause (C) would bar such retention.

The record does not show that the centralized control of Argus and Peoples leaves, to each of them, the advantages of localized management. The evidence which merely shows divisional maintenance, location of local offices, and localization of retail activities, is not sufficient. When in fact management is highly centralized, as it is in Northern's main office at Omaha, and there is no evidence as to the local nature of important policy determinations, we cannot find that the advantages of localized management are not impaired by central control. We believe that under clause (C) no combination of systems should be permitted which would impair true localization of management and policy-making. Otherwise, as is the case in the area in which Northern operates, small communities are pitted against strong "absentee control" with respect

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to matters vitally affecting the interests of the communities. In so far as possible, we are required under § 11 (b) (1) to insure local management responsive to local needs and local public feeling.<sup>48</sup>

### *C. The "Other Businesses" Retainable by Northern*

The great bulk of Northern's assets is represented by its directly held production and transmission properties. Of a total of group assets (i. e., the assets of Northern, Peoples, and Argus) of \$55,384,707, almost \$50,000,000 is represented by the production and transmission facilities owned by Northern.

[24] The question presented here is whether this vast enterprise can be regarded as "reasonably incidental, or economically necessary or appropriate" to the operations of any integrated system retainable by Northern. In general, the pattern of the statute and the context of the relevant statutory provisions seem to indicate that the "other business" tests are not to be applied to operations grossly out of proportion to the utility business with respect to which they are claimed to be "reasonably incidental, or economically necessary or appropriate." In the ordinary case, therefore, we believe the statute contemplates that after

compliance with § 11(b) (1) the integrated utility systems retainable by a registered holding company will constitute its primary business and that retainable nonutility interests will occupy a clearly subordinate position. However, the problems in the natural gas utility industry and the problem in this case, in particular, present an exceptional situation. Northern's pipe lines supply all of Peoples' gas and appear to be vital to its operations.<sup>49</sup> Although there may be some question whether § 2(a) (29) (B) permits us to regard the facilities of Northern as part of the "integrated gas utility system" of Peoples, we believe it has been shown that the joint ownership of these facilities satisfies the standards of the "other business" clauses and that Northern may therefore retain its transmission lines in combination with the properties of Peoples.

We cannot emphasize too strongly, however, that our conclusion with respect to the retention of the transmission lines of Northern as a permissible "other business" is highly conditioned by the facts of this case—and particularly by the fact that the question here presented is one of a natural gas utility company deriving its entire gas supply from transmission lines which bridge the gap from the source of supply to the ultimate consumer.<sup>50</sup>

<sup>48</sup> "An operating system whose management is confined in its interest, its energies, and its profits to the needs, the problems, and the service of one regional community is likely to serve that community better, to confine itself to the operating business, to be amenable to local regulation, to be attuned and responsive to the fair demands of the public, and, more often, to get along with the public to mutual advantage. . . . Essentially local systems will tend to operate utilities rather than to play with high finance; and essentially local enterprise is far less likely to accumulate a disproportionate amount of political and

economic power." (Report from the Committee on Interstate Commerce, 74th Cong. 1st Sess. Report No. 621 to Accompany S. 2796, May 13, 1935, p. 12.)

<sup>49</sup> This is not the case with respect to Argus, which purchases almost all its gas from nonaffiliated sources.

<sup>50</sup> See Hearings before the Senate Committee on Interstate Commerce, 74th Cong. 1st Sess. on S. 1725, at p. 673. See, too, *id.*, pp. 148, 958; and Hearings before the Committee on Interstate and Foreign Commerce, House of Representatives, 74th Cong. 1st



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### *Conclusions with Respect to Northern Natural Gas*

At present Northern is a registered holding company and a respondent in this proceeding. We must, therefore, require its compliance with § 11(b) (1). In accordance with the foregoing, and subject to a further opportunity to be afforded to Northern for the presentation of its views as to the choice of a principal system, our order will direct Northern, as a registered holding company, to divest itself of its interest in Argus Natural Gas Company.

### *VI. The Holding Company System of Illinois Traction Company*

Illinois Traction Company, a subsidiary of Light & Power and itself a registered holding company, is not engaged directly in any business other than that of a holding company. It has sixteen direct and indirect subsidiaries, some of which are actively engaged in the gas and electric utility, ice, steam, water, transportation, and terminal businesses, and some of which are inactive.

As of December 31, 1940, the capitalization of Illinois Traction Company was as follows:

6% cumulative preferred stock (217 shs. of \$100 par value)	\$21,700
Common stock (115,723 shs of \$100 par value) .....	11,572,300
Surplus (Deficit) .....	(14,920,039)

At the same date it was indebted to

Sess. on H. R. 5423, pp. 1747, 1794, 1795, 1865, 2254, 2280.

<sup>51</sup> In addition, Illinois Traction held 300,000 warrants to purchase an equal number of shares of Illinois Iowa's common stock. These warrants are carried on Illinois Traction's books at \$1. Light & Power had direct interests at December 31, 1940, in Illinois Iowa through ownership of 4,800 shares of 5 per cent cumulative convertible preferred stock,

Light & Power to the extent of \$12,-695,317, which is not included in the above surplus deficit figure. It has not paid dividends on its preferred stock since January 1, 1933. Light & Power holds seventy shares of its preferred and 115,666 shares of its common stock.

Illinois Traction carries its own investments at \$23,588,526. The largest of these is its investment in 300,000 shares of common stock (of a total of 783,805 shares outstanding) of Illinois Iowa Power Company, which is carried at \$21,563,597.<sup>51</sup>

Although the statement was made on the record that Illinois Traction Company was to be dissolved, it is still before us as a registered holding company and a respondent in this proceeding, and we must order it to comply with the requirements of § 11 (b) (1).

Illinois Traction's subsidiaries operate two large electric utility systems and several smaller electric properties. One of the larger systems, located in northern, central, and southern Illinois, is operated by Illinois Iowa Power Company and Kewanee Public Service Company, both direct subsidiaries of Illinois Traction. The other, in south central Iowa, is operated by Des Moines Electric Light Company, a subsidiary of Illinois Iowa, and Iowa Power and Light Company, a subsidiary of Des Moines.

800 certificates for dividend arrears and \$16,000 principal amount of 5½ per cent debentures, the aggregate carrying value being \$139,215.

North American carried a small direct investment in Illinois Iowa common stock at \$53,085, and carried a direct investment in its preferred at \$135,795. In addition, it held directly dividend arrears certificates carried at December 31, 1940, at \$56,547, and funded debt carried at an aggregate of \$621,734.

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The capitalization of Illinois Iowa, as of December 31, 1940, was:

Funded Debt .....	\$97,228,100
Preferred Stock .....	24,175,000*
Common Stock .....	19,595,125
Earned Surplus (since May 1, 1937) .....	7,137,746
Paid-in Surplus .....	14,168,648
<b>Total .....</b>	<b>\$162,304,619</b>

\* Dividend arrears on this stock amounted to \$4,432,083 in 1940.

After deduction of depreciation re-

Security	Amount
Funded debt .....	\$11,466,000
Preferred stock .....	6,372,900
Common stock .....	2,500,000

Held By  
Public  
\$49,600 by Des Moines,  
remainder by public  
Des Moines

serves, the property and plant account of the company amounted to \$92,-547,032, as of this same date. It carried investments in its subsidiaries at \$67,123,872.<sup>52</sup>

Kewanee, whose operations are closely related to the electric operations of Illinois Iowa, carries its plant and property at \$2,160,897 (with a depreciation or retirement reserve of \$346,-987).

The combined net income of both these companies in 1940 was \$2,078,-194. Illinois Iowa accounted for \$2,-073,198 of this amount.

The capitalization of Des Moines and Iowa Power and Light (whose electric operations are closely related and which we find, for reasons herein-after stated, together operate a single integrated electric utility system) at December 31, 1940, was:

Long-term debt .....	\$13,216,000
Advances from Illinois Iowa ....	3,300,000
Preferred stock .....	6,323,300
Common stock .....	6,700,000
Surplus .....	2,303,963
<b>Total .....</b>	<b>\$31,843,263</b>

<sup>52</sup> On August 22, 1941, we issued a notice of and order for hearing (Holding Company Act Release No. 2953) instituting proceedings

Illinois Iowa holds all the common stock of Des Moines and \$1,750,000 of Des Moines' bonds, which holdings it carries at \$8,839,387.

The total operating revenues of Des Moines and Iowa Power and Light in 1940, on a consolidated basis, were \$7,086,710 and net income, upon the same basis, was \$1,575,688.

The securities of Iowa Power and Light are held as follows:

### A. The Principal System

Neither Illinois Traction Company nor Illinois Iowa Power Company has indicated its choice of any "principal system." In order to dispose of the issues here raised, we have decided to base this opinion and our order herein on the largest and most important electric utility system included in the operations of Illinois Iowa and Kewanee as the principal integrated system of Illinois Traction Company, and of Illinois Iowa. However, Illinois Traction and Illinois Iowa will be afforded a further opportunity to present argument, should they so desire, on the appropriateness of this choice of their principal system. Our order, in so far as it requires divestment by Illinois Traction and Illinois Iowa, will be subject to modification if after presentation of further argument or evidence in this respect, such modification should appear to be necessary.

The principal system upon which our opinion and order herein are based includes the electric operations of Illi-

under § 11(b)(2) of the act against Illinois Iowa Power Company. The order makes the tentative charge that upon the basis of an ex-

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nois Iowa in the three large areas in northern, southern, and central Illinois and in the area in Sangamon and Logan counties, together with the electric operations of Kewanee Public Service Company.

[25] Respondents have asserted that the limits of the system thus described are too narrowly confined. They contend (1) that certain electric operations conducted by Illinois Iowa in four additional areas must be considered together with the other electric operations of Illinois Iowa and Kewanee as part of a single integrated electric utility system, and (2) that the electric operations of Des Moines and Iowa Power and Light must also be considered together with all the electric operations of Illinois Iowa and Kewanee as a single integrated system.

1. The additional electric operations conducted by Illinois Iowa, to which respondents' first contention relates, are relatively small in size and are located in the central and southern portions of Illinois, in regions around Jacksonville, Enfield, Eldorado, and Cairo, respectively. Although the main areas which we have held constitute the principal integrated system are physically interconnected by means of lines owned, or leased for joint use, no such connections exist among any of the four small areas, or between any of them and the main areas. The only physical interconnection which may be said to exist between the smaller areas and the principal operations of Illinois Iowa results from the fact that facilities in the smaller areas are connected

with facilities operated by Central Illinois Public Service Company, a non-affiliated company whose territory adjoins that of Illinois Iowa.

We cannot find that the operations in these smaller areas can be considered together with the principal operations of Illinois Iowa as a single integrated electric utility system. In determining the boundaries of an integrated electric utility system under § 2 (a) (29), we must find that the utility assets included therein are physically interconnected or are capable of such interconnection, and that these utility assets under normal conditions may be "economically operated as a single interconnected and coordinated system." (Italics supplied.) We think it clear that the quoted language refers to the physical operation of utility assets (not the management of the company or companies owning them) as a single interconnected and coordinated system; that is, a system in which (inter alia) the generation and/or flow of current within the system may be centrally controlled and allocated as need or economy directs, and which is operated as a unit. Thus, even though we find physical interconnection exists or may be effected, evidence is necessary that in fact the isolated territories are or can be so operated in conjunction with the remainder of the system that central control is available for the routing of power within the system. We can make no such finding with respect to the four smaller areas. Power sold by Illinois Iowa in the Jacksonville, Enfield, and

amination of the corporate structure of Illinois Iowa and its subsidiaries, it appears to the Commission that:

"The corporate structure of Illinois Iowa Power Company unduly and unnecessarily

complicates the structure and unfairly and inequitably distributes voting power among security holders of the holding company system of which it is a part."

This proceeding is now pending before us.

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Eldorado areas is purchased from the Central Illinois Company. The Cairo area has a generating station, but Illinois Iowa's management regards it as more economical to purchase power for that area from the same company. Although it has been admitted that present interconnection of the four smaller areas with the rest of the system by facilities of Illinois Iowa is not "economical" or "provident," it is claimed that the operation of the electric facilities in these areas is "thoroughly coördinated" and "efficiently carried on." This may be true with respect to corporate management, but the record does not convince us that all of the electric facilities of Illinois Iowa are, or can be, operated physically as a single interconnected and coördinated system.

2. Nor can we agree with respondents' contention that the electric operations of Des Moines and Iowa Power and Light, located in southern Iowa, should be considered together with the electric operations of Illinois Iowa and Kewanee as a single integrated electric utility system.

It has been stipulated that these properties are capable of physical interconnection. However, the evidence indicates that they are separately operated and that at present there is no physical connection between them except through facilities owned by other companies and running through foreign service territories. There is nothing in the record which would indicate that physical interconnection of the two properties by means of their own facilities is contemplated or is possible, within the reasonably near future. The statute defines an integrated electric system as one—"consisting of one

or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric utility companies, are physically interconnected or capable of physical interconnection and which under normal conditions may be economically operated as a single interconnected and coördinated system confined in its operations to a single area or region, in one or more states, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation." (Section 2 (a) (29) (A)).

There has been no attempt to show that the Illinois and Iowa properties are at present operated as a "coördinated" system, or that such operation under "normal" conditions is possible. While we need not here discuss all the possible meanings of the term "normal conditions," certainly it does not refer to conditions which might occur in the remote future, and whose occurrence has not been foreshadowed by any facts shown in the record. Accordingly, we cannot find that the Illinois and Iowa properties together constitute a single integrated electric utility system.

We conclude, therefore, that the electric operations of Illinois Iowa in the four main service territories in northern, central, and southern Illinois, together with the electric operations of Kewanee Public Service Company, constitute those of a single integrated electric utility system within the meaning of the act. We find further that the electric operations of Illinois Iowa conducted in and around Jack-

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sonville, Enfield, Eldorado, and Cairo constitute four separate and additional integrated electric utility systems, and that the electric operations of Des Moines and Iowa Power and Light constitute still an additional integrated electric utility system.

### *B. The Additional Utility Systems Retainable by Illinois Traction Company*

#### *1. The Additional Electric Utility Systems*

We must consider next whether the four smaller integrated electric utility systems of Illinois Iowa and the integrated electric utility system of Des Moines and Iowa Power and Light are retainable as additional systems to that of the principal system of Illinois Iowa and Kewanee. Since all of these systems are located in Illinois and Iowa, clause (B) does not bar their retention by a single holding company.

We find that the four smaller systems of Illinois Iowa cannot be operated as independent systems without the loss of substantial economies which can be secured by their retention under joint control together with the principal system of Illinois Iowa and Kewanee; and that the combination of all of these systems under the control of a single holding company is not so large as to impair the advantages of localized management, efficient operation, and the effectiveness of regulation. Accordingly, we hold that the four smaller systems of Illinois Iowa may be retained in addition to the principal system of Illinois Iowa and Kewanee. We cannot find, however, that the electric utility system of Des Moines and Iowa Power and

Light can be retained as an additional system under the statute.

The principal argument advanced with respect to retention of the electric utility system of Des Moines and Iowa Power and Light is based on the claim, already disposed of, that it and the electric properties of Illinois Iowa constitute a single system. However, Light & Power has also requested findings that the electric utility system of Des Moines and Iowa Power and Light cannot be operated independently without the loss of substantial economies and that the combination of these properties together with the electric operations of Illinois Iowa and Kewanee would satisfy clause (C).

The testimony of C. A. Leland, president of both the Des Moines and Iowa Power and Light companies, is cited to us for the proposition that substantial economies would be lost by a severance of the systems. We can find no support in the record for this claim. Some of this testimony represents the witness' opinion as to the advantages of holding companies generally. Some of it is evidence of contact with North American and its direct subsidiaries—of little value in assessing the relationship between the Illinois Iowa and the Des Moines and Iowa Power and Light systems. Neither system has any substantial contacts in respect of its operations with either Illinois Traction Company or Light & Power.<sup>63</sup> The evidence respecting the relationship between the two systems does show that the Des

<sup>63</sup> The only evidence of any such contact is that of a single instance of aid by Allen Van Wyck, president of Light & Power, in a Des Moines financing in 1938.



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Moines and Iowa Power companies pay salaries to certain personnel of Illinois Iowa for services performed.<sup>54</sup> However, upon careful consideration of the record, we cannot find that it has been shown that severance of the affiliation of these systems would deprive either of them of irreplaceable services, or involve such an increase, if any, in the cost of benefits now received from intrasystem contacts that the loss of substantial economies would result from the operation of each as an independent system.

Since we cannot find that clause (A) would be satisfied by the retention of both systems under common control, we must order Illinois Traction Company to divest itself of the electric utility system operated by Des Moines and Iowa Power and Light.

It may be appropriate also to cite one important factor which bears on the question whether the retention of the Illinois and Iowa systems in combination would meet the standards of clause (C).

It has been stated that the Iowa companies are subject to regulation by the Iowa State Commerce Commission with respect to the routing of gas and electric transmission lines and the standards of their construction. However, rates are not centrally regulated but are the subject of negotiation with individual communities served by the Iowa companies. The absence of such

central regulation makes it particularly necessary to apply rigorously the standards of clause (C) to insure the localization of each system's policy determinations. When the making of policy is in the hands of men who are not in their daily business activities responsive to local public feeling, and when the great resources of holding companies are pitted against local communities in their attempts at regulation, the growth of the holding company results in a direct impairment of "effective public regulation." (See § 1 (b) (5).) Section 11 (b) (1) is designed to limit such growth and to correct such situations where they exist at present. It must be interpreted to achieve that result. For that reason alone we could not find that the combination of the Illinois and Iowa systems under joint control would meet the standards of clause (C).

### *2. The Additional Gas Utility Systems<sup>55</sup>*

All of the four electric utility subsidiaries of Illinois Traction Company (i. e., Illinois Iowa, Kewanee, Des Moines, and Iowa Power and Light) are also gas utility companies. Another subsidiary, Cahokia Manufacturers Gas Company, own only gas facilities which are leased to Illinois Iowa.

Illinois Iowa and Kewanee, in 1940, distributed gas to 54 communities in

<sup>54</sup> This evidence shows instances of engineering and chemical consultation and aid to Des Moines in 1936 and 1939, assistance in rate matters, exchange of advertising and other promotional information, and aid in accounting and taxation problems.

<sup>55</sup> We have been asked to find that all of the electric and gas operations of Illinois Traction's subsidiaries in Illinois and Iowa taken together constitute a single integrated

system. This request must be rejected. First, we have already pointed out that gas and electric properties may not be retained together as parts of a single integrated system. Re Columbia Gas & E. Corp. (1941) Holding Company Act Release No. 2477, 37 PUR(NS) 288; Re United Gas Improv. Co. (1941) Holding Company Act Release No. 2692. Second, we have held that the combination of the electric properties alone cannot be regarded as a single system.

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11 isolated areas in the state of Illinois. A total of 99,600 gas customers was served with 23,320,000 therms of gas, and these sales accounted for approximately 15 per cent of the \$21,605,000 aggregate operating revenues on a consolidated basis of these companies. The only territory served with gas by Illinois Iowa and Kewanee, which is not also served with electricity, lies in and around East St. Louis. Eight gas production plants are owned and, in 1940, gas was also purchased from three unaffiliated sources. It is stated that the flow of gas from all sources is centrally directed from Decatur.

The gas facilities owned by Illinois Iowa and Kewanee consist of relatively small separate branch transmission lines serving separate retail systems and a transmission line fed with enriched manufactured gas out of East St. Louis. The transmission lines serving the various retail areas in Illinois are not generally physically interconnected. As of December 31, 1940, the total book value of fixed assets used in the electric operations of Illinois Iowa and Kewanee was \$65,614,537, and the book value of fixed assets used in the gas operations was \$22,806,652.

We need not decide now, and indeed the evidence is such that we cannot decide, the number or the confines of the integrated gas utility systems controlled by Illinois, Iowa, Kewanee, and Cahokia Manufacturers Gas Company. Their retention, together with the retainable electric operations of Illinois Iowa and Kewanee, would not be barred by clause (B) since, except for the territory of East St. Louis, the gas operations cover the same area as the retainable electric operations. The

evidence introduced to show that the standards of clauses (A) and (C) have been met indicate some evidence of joint use of facilities, personnel, and management. But, here again, we do not think the record contains an adequate exploration of the relevant evidence bearing on this question. (Compare the discussion *supra*, pp. 278, 279, of the retainability of the gas operations of the Union group and St. Louis County Gas Company.) We have therefore decided not to make any findings on this matter at this time. The record will be reopened for the purpose of receiving further evidence bearing on the permissibility under the act of retention of these gas operations in addition to the retainable electric operations of Illinois Iowa and Kewanee. Our order setting the date for the further hearing will contain a statement of the specific matters on which we desire to have additional evidence presented.

There is no evidence in the record which would permit us to find that the gas operations conducted by Des Moines and Iowa Power and Light may be retained. The evidence introduced in this respect deals only with the relationship existing between the gas and electric operations of these two companies. We have already held that these electric properties must be disposed of, and we cannot find that their gas operations meet the standards of clauses (A), (B), and (C) in relation to the properties of Illinois Iowa, Kewanee, or Cahokia Manufacturers Gas Company.

### C. The "Other Businesses" Retainable by Illinois Traction Company

Nonutility operations in the Illinois

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Traction system are conducted by Western Illinois Ice Company, a direct nonutility subsidiary of Illinois Traction Company, by Illinois Iowa and two of its subsidiaries, Illinois Terminal Railroad Company and Central Terminal Company, and by Des Moines Electric Light Company.

### 1. *Illinois Traction's Direct Nonutility Subsidiary*

#### (a) *Western Illinois Ice Company.*

This company operates ice manufacturing plants in Galesburg and Kewanee, Illinois. Its net operating revenues in 1940 amounted to \$35,603. It purchases current from Illinois Iowa and certain services are performed for it by Illinois Iowa personnel. Illinois Traction, which holds all its common stock, carried that investment at December 31, 1940, at \$235,755. No claim has been made that retention of this business is warranted under the "other business" clauses, and, on the record before us, we cannot find, under the standards of § 11 (b) (1), that its retention is reasonably incidental, or economically necessary or appropriate to the operations of any retainable utility system of Illinois Traction. Accordingly, divestment thereof must be required.

### 2. *"Other Businesses" of Illinois Iowa*

(a) *Steam heating business.* Seven communities in the service territory of the electric operations of Illinois Iowa are supplied with steam generated in boilers located in electric generating stations, and operated by personnel also engaged in the electric operations. The business produced net revenues before taxes and depreciation of \$70,118 in 1940, and had an aggregate of

\$1,975,330 of assets at December 31, 1940. The supplying of steam is intimately related to the operations of the electric utility systems of the company, and we find that the business is retainable as reasonably incidental, or economically necessary or appropriate to such operations.

(b) *Water business.* Water service is rendered in three communities which are in the service areas of Illinois Iowa's electric operations. This business produced net operating revenues, in 1940, of \$30,210. As of the end of 1940, the book value of fixed assets used in the business was \$1,371,598. In one of the communities served (Marseilles), pumping equipment is located in one of Illinois Iowa's generating stations. All energy used in the water business is supplied by Illinois Iowa. It is stated that though efforts have been made to sell this water business, it has been found "almost impossible" to procure an "even approximately satisfactory" offering, and that the Illinois Commerce Commission would not permit an abandonment of the business.

We have already noted that arguments based on the asserted difficulty of disposition of a property are irrelevant in a consideration of whether it may be retained under the standards of § 11 (b) (1). Such arguments are pertinent only to the question when compliance with a divestment order should be enforced. The only other claims asserted to support the retention of this business are that it is a customer of Illinois Iowa and that it maintains some of its equipment in one of Illinois Iowa's generating stations. We cannot find that these facts show such a relationship between this

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water business and the operations of the retainable utility operations as would justify a finding that retention of this business meets the standards of § 11 (b) (1). We must therefore order its divestment.

(c) *Ice business.* Illinois Iowa operates ice manufacturing plants in five Illinois communities. These operations produced net operating revenues before taxes and depreciation in 1940 of \$10,357. Current for the business is provided by Illinois Iowa.

No claim has been made that this business is retainable and since we cannot find that it is reasonably incidental, or economically necessary or appropriate to the operations of the retainable utility systems, our order will require its divestment.

(d) *Oil drilling.* Certain territory around Centralia (in the area of Illinois Iowa's electric operations) is proven oil land. Illinois Iowa has constructed three oil wells in this territory and invested about \$56,000. They have produced, since their operation, an income, after all expenses and taxes, of \$60,000. The oil has, to some extent, been used in the Centralia gas plant of the company for the production of carburetted water gas. It has, it is claimed, also been used in other plants of the company after having been repurchased from the pipe line company to which it was sold.

On the basis of the record before us, we cannot find that a sufficient relationship between this oil business and the operations of the retainable utility systems has been shown to justify a finding that retention of the oil business meets the standards of § 11 (b) (1). Accordingly, its divestment must be ordered.

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(e) *Transportation business.* Illinois Iowa conducts a street railway, trolley, and gasoline motor bus service in Peoria, Illinois, which is outside its utility service territory. Power for these properties has been purchased from unaffiliated sources. The business produced, in 1940, net operating revenues before taxes and depreciation of \$196,436 on an investment in fixed assets carried at \$5,392,000. It has been stated that attempts have been made to sell the properties, but that the prices offered have not been deemed sufficient.

The record does not warrant a finding that retention of this business is reasonably incidental, or economically necessary or appropriate to the operations of the retainable utility systems of Illinois Traction. Its divestment must be ordered.

(f) *Illinois Terminal Railroad Company and Central Terminal Company.* Illinois Terminal Railroad Company is an Illinois corporation organized in 1937 to take over the consolidated properties of five railroad companies. Its general office is in St. Louis, Missouri, and its property is located in Missouri and Illinois. As of December 31, 1940, the railroad company had outstanding:

Funded debt .....	\$14,229,000
Advances from Illinois Iowa .....	492,325
Common stock .....	25,000,000

All of its common stock is held by Illinois Iowa.

Central Terminal Company owns and operates a warehouse and office building in St. Louis in which terminal facilities are supplied. These latter facilities are leased to the railroad company. The Terminal Company also conducts certain minor real estate

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operations. As of December 31, 1940, the book value of its fixed assets amounted to \$6,901,286. As of the same date, the Terminal Company had outstanding:

Funded debt .....	\$725,000
Advances from Illinois Iowa .....	4,648,063
Common stock .....	1,000,000

All of its common stock is held by Illinois Iowa.

The railroad company operates a steam and electric road whose tracks form a web around St. Louis and East St. Louis and run thence up to Peoria, in central Illinois, form a loop at Springfield, Mackinaw, Bloomington, and Decatur, and run eastward into Danville.<sup>66</sup> It is a standard gauge road and its freight equipment is interchangeable with any road using standard equipment. It is subject to the jurisdiction of the Interstate Commerce Commission.

The railroad company also owns a dock and barge loading plant at Alton, Illinois, used primarily for the loading of barges for the Mississippi coal and coke traffic. In addition, it runs passenger busses between East St. Louis and Granite City, Illinois, and owns a toll and railroad bridge (the McKinley bridge) across the Mississippi river. As of December 31, 1940, the total book value of all its fixed assets was \$51,726,769.

The arguments made for retention of the railroad company's properties are (1) that prior to 1923 certain electric and railroad facilities in Illinois Iowa's service area were jointly owned; (2) that the railroad company

is the largest customer of Illinois Iowa; (3) that much equipment owned by Illinois Iowa is primarily devoted to serving the road and that telephone facilities owned by the road are also used by Illinois Iowa; (4) that certain joint facilities are cared for by joint personnel; (5) that economies result from common ownership; and (6) that it is difficult to sell the railroad properties. No argument for retention of the Terminal Company is made save that it should "obviously" be under common control with the railroad.

We have discussed at some length the criteria which we think are relevant to the question whether various interests may be retained under the "other business" clauses of § 11 (b) (1) (see pp. 279-282, *supra*), and have already disposed of contentions identical with those made here. A showing of historical relationship between the railroad and the electric facilities of Illinois Iowa, the fact that the railroad is its largest customer, and the alleged difficulty of disposing of the railroad properties have no bearing on this question. The use of certain joint facilities and the economies resulting from common ownership do have some pertinency but, after careful analysis of the evidence and arguments presented, we cannot find that the relationship of the railroad and Terminal properties to the operations of the retainable utility systems of Illinois Traction is such as to warrant retention of these railroad and real estate properties under the control of a registered public utility holding company.

<sup>66</sup> The properties of this company also, include an electric railway line between St. Louis and Alton, formerly owned by St. Louis & Alton Railway Company (a wholly owned subsidiary of Union Electric Company of

Missouri) and leased to Illinois Terminal. On December 31, 1940, St. Louis & Alton Railway sold these properties to Illinois Terminal and on April 18, 1941, St. Louis & Alton was dissolved.



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We have considered the applicability of the "other business" clauses of § 11 (b) (1) to a railroad business controlled by the Union group and, under facts showing a very close relationship between the railroad business and the utility system, we concluded that the railroad business could be retained. (See pp. 287, 288, *supra*.) There are no comparable facts here. We cannot find under § 11 (b) (1) that the railroad and Terminal companies' businesses are reasonably incidental, or economically necessary or appropriate to the operations of any integrated public utility system retainable by Illinois Traction. Accordingly, we must order Illinois Traction and Illinois Iowa to divest themselves of these interests.

(g) *Dormant companies.* Certain direct subsidiaries of Illinois Iowa, which have no tangible assets and do no business, have been kept in existence for the purpose of preserving franchises in areas in which Illinois Iowa conducts its gas business,<sup>87</sup> or because unsettled claims against them are outstanding.<sup>88</sup> One of these companies, the Venice Gas Company, has assigned its franchise to Illinois Iowa and that company now operates under the franchise.

It has been stated that these companies will be "dissolved as soon as circumstances permit." The ownership of franchises in the area served by Illinois Iowa appears to be closely

related to the gas operations of the system and since we have determined to reserve decision with respect to the gas operations, we shall also reserve judgment as to these companies. As to St. Louis Electric Terminal Railway Company, since it does no business whatsoever, and since it is merely being kept alive in connection with the settlement of outstanding claims, we must require that it be separated from the Illinois Traction system by dissolution or otherwise.

### 3. "Other Businesses" of Des Moines Electric Light Company

The only nonutility business engaged in by Des Moines and its subsidiary, Iowa Power and Light, is a heating business. The evidence with respect to this business deals only with its relationship to the utility operations of Des Moines and Iowa Power and Light. Since we have concluded that these utility operations must be disposed of, we cannot find, under § 11 (b) (1), that this heating business is reasonably incidental, or economically necessary or appropriate to the operations of any retainable utility system of Illinois Traction Company.

### Conclusions with Respect to the Illinois Traction System

In accordance with the foregoing, Illinois Traction Company and Illinois Iowa Power Company will be ordered to divest themselves of all holdings, direct and indirect, of the securities of Des Moines Electric Light Company and Iowa Power and Light Company. Illinois Traction will also be required to divest itself of all its holdings of securities of Western Illinois Ice Company; and Illinois Traction and Illinois Iowa will be directed to dispose of the

<sup>87</sup> These companies are Cairo City Gas Company, Champaign and Urbana Gas Light and Coke Company, Decatur Electric Company, Danville Gas Light Company, The Jacksonville Gas Light & Coke Company, Jacksonville Railway and Light Company.

<sup>88</sup> These companies are St. Louis Electric Terminal Railway Company and Venice Gas Company.

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water, ice, oil drilling, and transportation business of Illinois Iowa, the railroad, terminal, and real estate businesses of Illinois Iowa's subsidiaries, Illinois Terminal Railroad Company and Central Terminal Company, and the securities of St. Louis Electric Terminal Railway Company.

As we have indicated, Illinois Traction and Illinois Iowa will be afforded a further opportunity to present argument, should they so desire, on the appropriateness of the choice of the electric operations of Illinois Iowa and Kewanee as their "principal system"; and our order, in so far as it requires divestment by Illinois Traction and Illinois Iowa, will be subject to modification, if, after presentation of further argument or evidence in this respect, such modification appears necessary. We shall order a further hearing on the question whether the gas properties of Illinois Iowa, Kewanee and Cahokia (and the dormant companies kept alive for franchise reasons) may be retained in combination with the retainable electric properties.

### *VII. The Holding Company System of Illinois Iowa Power Company*

Illinois Iowa is not only an operating company and a subsidiary of Illinois Traction, but is itself a registered holding company heading a large system. However, all of the problems which arise in the application of the standards of § 11 (b) (1) to Illinois Iowa's holding company system have already been discussed and disposed of in connection with our discussion of the Illinois Traction system.

Subject to any further argument which may be requested as to the ap-

propriateness of the choice of its "principal system," we have held that Illinois Iowa may retain its directly owned electric and steam-heating properties. Our order will require the divestment of its water, ice, oil drilling, and transportation businesses and the divestment of its holdings, direct and indirect, of the securities of Des Moines Electric Light Company, Iowa Power and Light Company, Illinois Terminal Railroad Company, Central Terminal Company, and St. Louis Electric Terminal Railway Company. We are reserving our decision with respect to the retainability of the gas properties of Illinois Iowa, Kewanee, and Cahokia and the dormant companies kept alive for franchise reasons.

### *VIII. The Holding Company System of Des Moines Electric Light Company*

Des Moines, a subsidiary of Illinois Iowa Power Company, is itself a registered holding company and a respondent in this proceeding. Des Moines is a Maine corporation organized in 1909. Its properties and those of its wholly-owned subsidiary, Iowa Power and Light Company, are located entirely in Iowa.

The territory served with electricity by Des Moines and Iowa Power and Light contains about 3,240 square miles. It is a solid area running 102 miles east to west, and 52 miles north to south. It has a total population of about 290,000. The companies serve 101 communities and intervening rural areas, 99 with electricity, 8 with gas, and 1 with steam heat. The property devoted to the electric business represents 75.7 per cent of the total of the properties of both companies; 23.6

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per cent of the properties are devoted to the gas and .7 per cent to the heating businesses. Both companies own production, transmission, and distribution units.

### A. *The Principal and Additional Systems of Des Moines*

Both companies own generating facilities (steam and hydro) which are interconnected and are also connected with the companies' transmission and distribution facilities. These operations of both companies are conducted as a unit and, accordingly, we find that their electric operations constitute those of a single integrated electric utility system. The only question with respect to the retention of additional systems arises in connection with the gas business of the companies. Both Des Moines and Iowa Power and Light serve a total of eight communities with natural and manufactured gas. In 1940, 39,900 gas customers were served with 12,900,000 therms of gas. These operations accounted for 24 per cent of the total operating revenues of the two companies. Ninety-three per cent of the gas customers of both companies reside in Des Moines.<sup>69</sup>

We find that the gas operations of Des Moines and Iowa Power and Light constitute those of a single integrated gas utility system. However, for reasons similar to those mentioned in our discussion of the retainability of the gas operations of the Union

group and those of Illinois Iowa, Kewanee, and Cahokia (see pp. 278, 279, 303, *supra*), we will not at this time pass upon the question whether the gas operations of Des Moines and Iowa Power and Light may be retained as a system additional to their integrated electric system. The record will be reopened for the introduction of further evidence bearing on that question.

### B. *The "Other Businesses" Retainable by Des Moines*

The only nonutility business engaged in by Des Moines and Iowa Power and Light is the rendition of heating service in Oskaloosa, Iowa. In 1940 this business accounted for \$31,989 of revenue. Boilers used for heating service are located in a station which is used also as a point of connection between the main electric transmission system of the company and the Oskaloosa distribution system. Personnel used in the station operate both the electric and steam services. We find that this heating business is reasonably incidental, or economically necessary or appropriate to the operations of the retainable utility systems of Des Moines.

### *Conclusions with Respect to Des Moines*

Subject to the further hearing with respect to the retainability of the gas operations, it will be unnecessary for Des Moines or Iowa Power and Light to take any action to comply with the requirements of § 11 (b) (1) of the act.

### *Summary of Conclusions and Nature of Orders*

This summary of conclusions will

<sup>69</sup> For the year ending December 31, 1940, total operating revenues for both companies from all sources were \$7,086,710; \$5,357,563 of this amount is accounted for by the electric business and \$1,697,158 by the gas business. The book value of the companies' assets as of December 31, 1940, was \$39,846,543, 23.6 per cent of which was devoted to the gas business.

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indicate those interests and businesses, directly or indirectly held, controlled or operated, which must be disposed of by the various registered public utility holding companies in the North American system in order to comply with § 11 (b) (1) in accordance with our findings and opinion.

Each of the registered holding companies in the system will be ordered to sever its relationship with the companies set forth below its name by disposing, or causing the disposition, in any appropriate manner not in contravention of the applicable provisions of the act or the rules and regulations promulgated thereunder, of its direct or indirect ownership, control, or holding of securities issued and properties owned, controlled or operated by the said companies:

### *I. The North American Company*

Union Electric Land and Development Company; East St. Louis & Suburban Railway Company; East St. Louis Railway Company; Wisconsin Electric Power Company; The Milwaukee Electric Railway & Transport Company; Motor Transport Company; Badger Auto Service Company; Wisconsin Gas & Electric Company; Wisconsin-Michigan Power Company; Milwaukee Light, Heat & Traction Company; Hevi-Duty Electric Company; The Cleveland Electric Illuminating Company; The Power & Light Building Company; The Ceico Company; North American Light & Power Company; The Kansas Power and Light Company; Missouri Power & Light Company; The Blue River Power Company; The McPherson Oil and Gas Development Company; Power & Light Securities Company;

North American Oil and Gas Company; Northern Natural Gas Company; Argus Natural Gas Company, Inc.; Peoples Natural Gas Company; Illinois Traction Company; Kewanee Public Service Company; Cahokia Manufacturers Gas Company; Western Illinois Ice Company; Illinois Iowa Power Company; Des Moines Electric Light Company; Iowa Power and Light Company; Illinois Terminal Railroad Company; Central Terminal Company; Cairo City Gas Company; Champaign and Urbana Gas Light and Coke Company; Danville Gas Light Company; Decatur Electric Company; The Jacksonville Gas Light & Coke Company; Jacksonville Railway and Light Company; St. Louis Electric Terminal Railway Company; Venice Gas Company; Washington Railway and Electric Company; Potomac Electric Power Company; Great Falls Power Company; The Washington and Rockville Railway Company of Montgomery County; Braddock Light & Power Company, Incorporated; Capital Transit Company; Montgomery Bus Lines, Incorporated; The Glen Echo Park Company; West Kentucky Coal Company (New Jersey); West Kentucky Coal Company (Delaware); Peoples Coal Company; St. Bernard Coal Company; North American Utility Securities Corporation; Pacific Gas and Electric Company and its subsidiaries; The Detroit Edison Company and its subsidiaries.

The operations of the North American system will thus be limited to the electric, gas (pending further action), and steam-heating operations of the Union group, the coal business of Union Colliery Company, the transportation business of St. Louis & Belleville

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Electric Railway Company, and the building owned by 60 Broadway Building Corporation. Further hearings will be held with respect to the retainability of the gas operations of the Union group and St. Louis County Gas Company, and with respect to the retainability of 60 Broadway Building Corporation.

North American will be afforded further opportunity to present additional argument or evidence, if it so desires, with respect to the choice of its principal system.

### II. *Union Electric Company of Missouri*

Union Electric Land and Development Company; East St. Louis & Suburban Railway Company; East St. Louis Railway Company.

The operations of the Union Electric system will thus be limited to the electric, gas (pending further action), and steam-heating operations of the Union group, the coal business of Union Colliery Company, and the transportation business of St. Louis & Belleville Electric Railway Company. Further hearings will be held with respect to the retainability of the gas operations of the Union group and St. Louis County Gas Company.

### III. *Washington Railway and Electric Company*

Great Falls Power Company; Capital Transit Company; Montgomery Bus Lines, Incorporated; The Glen Echo Park Company.

The operations of the Washington Railway and Electric Company system will be limited to the electric utility operations of Potomac Electric Power Company and Braddock Light & Power Company, Incorporated.

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### IV. *The Washington and Rockville Railway Company of Montgomery County*

Great Falls Power Company.

The operations of the Washington and Rockville system will thus be limited to the electric utility operations of Braddock Light & Power Company, Incorporated.

### V. *Northern Natural Gas Company* Argus Natural Gas Company.

The operations of the Northern Natural Gas System will thus be limited to the gas operations of Peoples Natural Gas Company, and the gas production and transmission facilities of Northern Natural Gas Company.

Northern Natural Gas Company will be afforded the further opportunity to present argument as to whether it wishes to retain the Argus system rather than Peoples as its principal system.

### VI. *Illinois Traction Company*

Western Illinois Ice Company; Des Moines Electric Light Company; Iowa Power and Light Company; Illinois Terminal Railroad Company; Central Terminal Company; St. Louis Electric Terminal Railroad Company.

Illinois Traction Company and Illinois Iowa Power Company will also be ordered to divest themselves of any interest, direct or indirect, in the water, ice, oil drilling, and transportation businesses now engaged in by Illinois Iowa Power Company.

The operations of the Illinois Traction system will thus be limited to the electric and gas operations of Illinois Iowa Power Company and Kewanee Public Service Company, the gas operations of Cahokia Manufacturers Gas Company, and the steam-heating busi-



## RE THE NORTH AMERICAN CO.

ness of Illinois Iowa Power Company. Further hearings will be held with respect to the retention of the gas operations.

Illinois Traction Company will be afforded a further opportunity to present evidence and argument on the question whether any single integrated utility system other than the major integrated electric utility system of Illinois Iowa Power Company and Kewanee Public Service Company shall serve as its principal system.

### VII. *Illinois Iowa Power Company*

Des Moines Electric Company; Iowa Power and Light Company; Illinois Terminal Railroad Company; Central Terminal Company; St. Louis Electric Terminal Railway Company.

Illinois Iowa Power Company will also be ordered to divest itself of any interest held, directly or indirectly, in any nonutility business except the steam heating business which it now operates.

The operations of the Illinois Iowa Power Company system will thus be limited to its own electric, gas (pending further action), and steam heating businesses. Further hearings will be held with respect to the retainability of the gas business.

Illinois Iowa Power Company will be afforded a further opportunity to present evidence and argument on the question whether any single integrated utility system now controlled by it other than the major electric utility system designated as its principal system in this opinion shall serve as its principal system.

### VIII. *Des Moines Electric Light Company* as a registered holding com-

pany, need take no action at this time to comply with the requirements of § 11(b)(1). Further hearings will be held with respect to the retention of the gas operations of Des Moines and Iowa Power and Light.

Our order will provide that its entry, publication, and service shall be without prejudice to the right of the Commission, and that jurisdiction shall be reserved, to issue such other and further orders as may be necessary or advisable for securing compliance with the provisions of the act and the rules and regulations thereunder, and in carrying out the provisions of the order. Our order will further provide that it shall in no way affect the conduct of such proceedings and the entry of such orders as the Commission shall deem necessary and appropriate under § 11(b)(2) of the act.

At various points in this opinion and in connection with our discussion of the retention of various interests, we have adverted to respondents' claims of alleged difficulties in disposing of such interests. We have stated, and we again emphasize the fact, that, under the standards of the act, difficulties of disposition have no bearing at all on whether any particular interest is retainable; and that such difficulties are pertinent only to the question *when* compliance with our order of divestment should be enforced. Consequently, respondents' references to adverse market conditions for the sale of securities have no relevancy whatever *at this time*. The statute provides a year within which respondents may comply with our order. Furthermore, on an appropriate showing (which would certainly include a

## SECURITIES AND EXCHANGE COMMISSION

showing that bona fide attempts to dispose of properties had been prevented by adverse market conditions), we may grant an additional year for compliance. And even at that time our orders under § 11(b) (1) are not self-enforcing. For under the act compulsory compliance can occur only after the Commission makes application to a court.

It is appropriate also to point out once again that compliance with our § 11(b) (1) orders need not always

be effected by the outright sale of properties for cash. It seems clear that a very large part of the divestments and dispositions necessary to comply with § 11(b) (1) and our orders thereunder may be effectuated by stock dividends, by exchanges of portfolio securities with the security holders of the holding company, and through the exchange of properties between systems. It may be that these methods in practice will overshadow sales.

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## SECURITIES AND EXCHANGE COMMISSION

### Re Republic Service Corporation et al.

[File No. 4-44, Release No. 3513.]

#### *Intercorporate relations, § 19.8 — Holding company regulation — Petition by stockholder.*

1. A stockholder of a holding company has the right to request the Commission to take action under § 11(b) of the Holding Company Act, 15 USCA § 79k(b), where proceedings under that section have not been instituted by the Commission, which request will be considered by the Commission, in its discretion, for appropriate action, p. 316.

#### *Intercorporate relations, § 19.8 — Simplification of holding companies — Right of stockholder to file plan.*

2. A stockholder does not have the right to file a plan of reorganization under § 11(e) of the Holding Company Act, 15 USCA § 79k(e), either on behalf of himself, or, derivatively, on behalf of his company, since the Commission has been designated by Congress as the exclusive agency for initiating integration or simplification proceedings, aside from the voluntary procedure specifically provided by § 11(e) for the filing of plans by companies subject to the act, p. 316.

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#### *Constitutional law, § 1 — Right of petition.*

Discussion by Securities and Exchange Commission of the right to petition government for redress of grievances, with a consideration of the historical background, p. 316.

[May 8, 1942.]

## RE REPUBLIC SERVICE CORPORATION

**P**ETITION by stockholder for institution of proceedings for simplification under § 11 of the Holding Company Act; dismissed.

APPEARANCES: Lynne A. Warren, for Irving H. Isaac; Francis H. Scheetz, for Republic Service Corporation; Winthrop Johnson, for Public Utilities Division of the Commission.

By the COMMISSION: Irving H. Isaac, a preferred and common stockholder of Republic Service Corporation, a registered holding company, filed a petition with this Commission on November 21, 1941, requesting the issuance of an order under § 11 (b) (2) of the Public Utility Holding Company Act of 1935, 15 USCA § 79k(b)(2) requiring the company to distribute voting power fairly and equitably among its security holders "and/or" requesting the issuance of an order approving a plan submitted by him for the reorganization of the company under § 11(e) of the act. Petitioner submitted a brief in support of his petition and requested oral argument before the Commission, which was granted.

### *Petitioner's Allegations*

Petitioner alleges that no dividends have been paid on the preferred stock of Republic since May, 1933, and that on December 31, 1940, the aggregate dividend arrears thereon amounted to \$45.75 per share, or a total of \$804,330; and that no dividends have been paid on common stock since December 31, 1930, when a dividend of 5 per cent in common stock was paid. The petition also alleges that the liquidation value of the preferred, including the accumulated arrears, totals \$2,562,-

430, or approximately \$51,614 in excess of the total preferred and common stock equity, per books, of \$2,510,816, resulting in a deficit in the common stock account. It is also alleged that at no time since 1933 has the net income of the corporation equaled the preferred dividend requirements. Petitioner alleges that the common stock has no equity in either assets or earnings in the corporation and that, therefore, its voting control of 75 per cent constitutes an unfair and inequitable distribution of voting power in violation of § 11(b)(2).

It is further alleged that the properties of the sixteen subsidiaries of Republic are scattered from northeastern Pennsylvania to southwestern Virginia "with little, if any, capability of interconnection" and that such scattering is in violation of § 11(b)(1). Finally, it is alleged that petitioner has made repeated efforts since 1937 to induce the management of Republic to comply with § 11(b), and that such efforts have been unavailing.

On the basis of these allegations, petitioner asserts

(1) that he is entitled to request the Commission to issue an order instituting § 11(b)(2) proceedings,

(2) that the Commission should institute such proceedings, and

(3) that petitioner has the right to file its own plan of reorganization under § 11(e) because, as a stockholder, it has a bona fide interest in the company and also that, in view of the company's alleged failure to comply with the act, a derivative right has arisen to

## SECURITIES AND EXCHANGE COMMISSION

file a plan on behalf of Republic under § 11(e).

### *The Right to Request the Institution of § 11(b) Proceedings*

[1] Petitioner, as a stockholder of Republic, obviously has the right to petition the Commission to institute proceedings under § 11(b) to correct Republic's alleged nonconformity with the requirements of the act. The right to petition the government for the redress of grievances is an inalienable right under the Constitution, guaranteed against infringement under the First Amendment.<sup>1</sup>

The exercise of petitioner's right to petition the Commission to redress his grievances is entirely appropriate, both as an expression of stockholder interest and needs and as an aid to the Commission in the performance of its statutory duties. All such requests, though on an informal basis, will, of course, continue to receive our serious consideration, and appropriate action where circumstances so warrant.

### *The Decision to Institute § 11(b) Proceedings*

Prior to the filing of the instant petition, our Public Utilities Division

had been engaged in a § 11(a) study of Republic's corporate simplification and integration problems, preliminary to the determination of whether or not proceedings should be instituted under § 11(b) of the act. Since the receipt of the instant petition, this study has been expedited and is now completed to the point where we have decided that § 11(b) proceedings should be instituted to determine what action, if any, is necessary to comply with § 11(b). Accordingly, an appropriate order is being issued instituting such proceedings for the purpose of resolving Republic's status under § 11(b).

### *The Right to File a § 11(e) Plan*

[2] We are compelled, however, to deny petitioner's alternative request that the Commission issue an order instituting § 11(e) proceedings for the purpose of approving the plan of compliance with § 11(b) submitted by him, since we hold that petitioner does not have the right, either on his own behalf, or derivatively on behalf of his company, to file a § 11(e) plan for formal consideration by the Commission at this time.

There are no specific provisions in the act which grant a stockholder the

<sup>1</sup> The right to petition government goes back at least as far as Magna Carta and has been one of the developing freedoms which men fought to acquire and retain. History records that a committee of grievances to which petitions were referred was appointed by the House of Commons in 1571; a little later, in the seventeenth century, some of the most fundamental political ideas of the period were expressed through petitions, outstanding of which was the Petition of Right of 1628. See 12 Encyclopaedia of the Social Sciences, 98, 99 (1934). The British Bill of Rights of 1689, to which our own is largely indebted, asserted that, "it is the right of the subjects to petition the King, and all commitments and prosecutions for such petitioning are illegal."

The Stamp Act Congress of 1765 stated in its Declaration of Rights: "That it is the

right of the British subjects in these colonies, to petition the King or either house of parliament." Later the right was included in the bills of rights of the new states emerging from colonial status upon the creation of the United States of America and in the Federal Bill of Rights.

During the agitation over the slavery issue prior to the Civil War, a special congressional committee recommended that since discussions of the topic were disquieting, all petitions regarding it should be laid on the table without publication or notice. John Quincy Adams vigorously opposed this procedure for many years, maintaining that not even "the most abject despotism" would "deprive the citizen of the right to supplicate for a boon. . . ."

## RE REPUBLIC SERVICE CORPORATION

right, at his own initiative, to file a § 11(e) plan, thus instituting, in effect, integration or simplification proceedings. Inferentially, §§ 11(d), (e), and (f) may be construed to deny such a right. Sections 11(d) and (f) dealing with court enforcement of Commission orders under § 11(b) and reorganizations under the aegis of a court, respectively, permit the filing of plans with the court by ". . . any person having a bona fide interest (as defined by the rules and regulations of the Commission) in the reorganization"; and § 11(e) provides for the filing of a voluntary plan of compliance with § 11(b) by "any registered holding company or any subsidiary" thereof. Congress' failure to provide for stockholder plans of compliance in advance of the institution of § 11(b) proceedings, in the face of specific provisions permitting companies to file such plans and permitting stockholders to file plans at a subsequent stage, leads to the inference that no such right is present under the statute.

Petitioner urges, however, that although § 11(e) is limited, in haec verba, to the filing of plans of compliance by the companies subject to the act, a stockholder has the derivative right to file a § 11(e) plan. This derivative right is stated to arise from the following propositions:

(1) Section 11(b) imposes obligations upon holding company systems to conform to its requirements of geographical integration and corporate simplification;

(2) Republic does not conform to these statutory standards;

(3) Republic, although continuously urged by petitioner to comply with the act, has taken no steps to do so,

and this "illegal and injurious act of omission," which deprives its stockholders of substantial rights, entitles a stockholder to take upon himself and perform derivatively, under § 11(e), Republic's corporate duty of complying with the act.

In reply, counsel for Republic contended that § 11(e) is permissive in nature and that since the Commission has issued no order under § 11(b) requiring any action, there can be no breach of trust by Republic's directors and, hence, no derivative right by a stockholder has arisen. We need not here decide whether or not the inaction and omission of the management of Republic to take affirmative steps to comply with the requirements of § 11(b) involve a breach of duty to its stockholders or whether, even in the absence of statutory requirements such as § 11(b), a management does not have the independent duty of readjusting and simplifying an allegedly highly complex capital structure which is unjust to its stockholders; for we hold that Congress designated the Commission as the exclusive agency for the initiating of integration or simplification proceedings, aside from the voluntary procedure specifically provided by § 11(e) for the filing of plans by companies subject to the act. Any other construction of § 11 would result in confusion and would impede the orderly administration of the act. While we appreciate the desire of a stockholder to obtain an expeditious simplification and integration of the holding company system in which he has invested his funds, we believe that his interest and the interests of other investors and consumers will best be safeguarded if the decision as to the in-



## SECURITIES AND EXCHANGE COMMISSION

stitution of involuntary simplification and integration proceedings remains with the Commission.

It should be pointed out that once § 11(b) proceedings are instituted, a stockholder may be permitted to intervene or be heard, as provided by Rule XVII of the Commission's Rules of Practice. In this respect, a stockholder granted such privileges is permitted to participate in the proceeding and is afforded an opportunity to express his views as to the issues arising in the case. It should also be noted that §§ 11(d) and 11(f) provide that reorganization plans may be proposed " . . . by the Commission, or subject to such rules and regulations as the Commission may deem necessary or appropriate in the public interest or for the protection of investors, by any person having a bona fide interest (as defined by the rules and regulations of the Commission) in the reorganization." Acting under these sections, as well as the general rule-making power contained in § 20(a), 15 USCA § 79t(a), the Commission plans to move expeditiously to consider what rules it may or

should properly enact with respect of the filing of plans by security holders. Petition dismissed.

### ORDER

A petition having been filed with the Commission by Irving H. Isaac, a stockholder of Republic Service Corporation, a registered holding company, requesting the issuance of an order by the Commission under § 11(b)(2) of the Public Utility Holding Company Act of 1935 requiring Republic Service Corporation to distribute voting power fairly and equitably among its security holders and/or requesting the issuance of an order by the Commission approving a plan submitted by petitioner for the reorganization of Republic Service Corporation under § 11(e) of said act; briefs having been filed and oral argument heard pursuant to order of the Commission, after appropriate notice; and the Commission having this day issued its opinion herein;

It is *ordered* that the petition be, and it hereby is, dismissed.

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

# Pennsylvania Public Utility Commission v. Manufacturers Light and Heat Company

[Complaint Docket No. 13565.]

*Rates, § 656 — Impounded fund — Conditions.*

A public utility company which puts new tariffs in effect and impounds the excess over the rates effective under present tariffs, pending Commission investigation, must advise the Commission immediately upon its selection

PENN. PUB. UTIL. COM. v. MANUFACTURERS LIGHT & H. CO.

of a depository, make monthly reports of deposits, and make no withdrawals from the impounded funds without Commission approval.

*Rates, § 656 — Impounding of funds.*

Criticism of an agreement for impounding of funds rather than an immediate decision against a rate increase, with a consideration of the probability that some of the excess revenue will never be returned to consumers because of changes of residence, p. 319.

(BUCHANAN, Commissioner, dissents.)

[March 31, 1942.]

**I** *INVESTIGATION of proposed increases in rates; provision made for impounding of funds.*

By the COMMISSION: By letter of March 13, 1942, the Commission requested a voluntary two months' suspension by the Manufacturers Light and Heat Company, respondent, of the proposed increased rates contained in Supplement No. 17, to Tariff Pa. P.U.C. No. 10. The suspension was requested to June 2, 1942, in order to allow adequate time for consideration of the record which was closed March 6, 1942, and for preparation of a Commission order.

Respondent advised the Commission that it could not agree to a suspension of the effective date of the proposed rates, but that it was willing to impound, in a depository satisfactory to the Commission, all rate collections representing the difference between the present rates and those effective April 2, 1942. Respondent offered to accept reasonable conditions as to retention of the fund pending final determination of the rate proceedings.

We accept the agreement of respondent to impound the excess of the rates to be collected after April 2, 1942, over the rates now effective. Relying upon the good faith of respondent, we deem it unnecessary to

designate a depository, but respondent must advise us immediately upon its selection of a depository, make monthly reports of deposits, and make no withdrawals from the impounded funds without Commission approval; therefore,

Now, to wit, March 31, 1942, it is ordered:

1. That The Manufacturers Light and Heat Company impound, until final determination of this proceeding, all rate collections representing the difference between its existing rates and those effective April 2, 1942, under Supplement No. 17, to Tariff Pa. P.U.C. No. 10, and advise the Commission immediately upon selection of the depository for such impounded funds.

2. That withdrawals from the impounded fund account shall be made only upon Commission approval.

Commissioner Buchanan files a dissenting opinion.

BUCHANAN, Commissioner, dissenting: Manufacturers Light and Heat Company, respondent, has refused a voluntary suspension of the proposed increase in rates contained in Supple-

## PENNSYLVANIA PUBLIC UTILITY COMMISSION

ment No. 17 to Tariff Pa. P.U.C. No. 10, in order to allow adequate time to the Commission for the preparation of an order based upon the record which was closed March 6, 1942.

At the time the record was closed there were three courses of action for the Commission to pursue prior to the effective date of the proposed increase in rates on April 2, 1942. They were as follows:

1. To obtain a voluntary postponement on part of the company of the effective date of the tariff from April 2nd to June 2nd in order to prepare a full and complete order based upon the report of the Commission's staff.

2. From the record to make a decision and issue an order by April 2nd. To be followed by a supplemental order, containing full findings of fact following the Commission's standard practice in other cases if time proved too short to prepare an order with complete findings and conclusions.

3. Permit the increased rates to go into effect and dispose of the major rate case, C. 11380, at a later date with findings of fact and conclusions of law.

The company first refused the first possibility as indicated by the majority order. The Commission next refused the second possibility, therefore, the third possibility becomes effective on April 2nd, modified only by the agreement of the respondent to impound the excess revenues represented by the increase in rates.

It is true that our technical bureaus for various reasons hesitated to make any flat commitments as to the conclusion that should be reached from the record. However, on the basis of the company's own figures together with

some obvious adjustments, which figures and calculations have been submitted before the Commission as a whole, I am convinced that any increase in rates by the Manufacturers Light and Heat Company is unjust, unreasonable, and completely against the public interest.

In other words, using the company's own figures, particularly exhibits numbered 68, 69, and 74, and using the company's own testimony as to depreciation practices in the past (with a slight adjustment as to the figure to be annually charged in the future), company allocations of company property, revenue, and expenses, and applying to such figures, the majority's own method of determination as used in the Peoples Natural Gas Case (with which I did not agree as I believed the figures to be too high), I have reached the conclusion that instead of an increase in rates, a decrease approximating \$200,000 annually would be justified on the basis of the old rates.

I will be greatly interested in observing the final determination of the Commission.

The impounding of excess revenues produced by the increase in rates is to some extent a gesture. Moving day in Pittsburgh and vicinity is May 1st. Perhaps it may not be acute this year. Perhaps it may be exaggerated by the war. In any event, it is reasonable to believe that some of the excess revenues will never be returned to the consumers because it will never be claimed.

April 1st has a deeper significance to the customers of Manufacturers Light and Heat Company this year by the majority action.

From the Early Period  
of the Telegraph to the present  
remarkable development in the field of Electricity

# KERITE

has been continuously demonstrating the  
fact that it is the most reliable and  
permanent insulation known

THE KERITE INSULATED WIRE & CABLE COMPANY INC.  
NEW YORK CHICAGO SAN FRANCISCO





# Industrial Progress

*Selected information about manufacturers, new products, and new methods. Also news on utility expansion programs, personnel changes, recent and coming events.*



## Equipment Notes

### Mobile Generating Plants Developed

The Cooper-Bessemer Corp. has reported development of floating power generating plants for emergency use in cases of a breakdown of existing facilities, or to supplement present stationary plants straining under unprecedented demands for current.

Gordon Lefebvre, general manager of the corporation, said the plants, assigned to strategic areas, easily could be towed to a district affected during an emergency to supply electricity until land facilities were restored.

According to Mr. Lefebvre, such marine power plants could be mounted on a barge of simple construction, and that driven by modern Diesel engines, they would cost much less than land plants of equal power production possibilities.

### Emergency Hand Lanterns

The S. & G. Manufacturing Co., 149 Wooster Street, New York City, have completed a new emergency light which is made of stamped steel and has a shock-proof mounting bracket. This lantern is connected to a gravity type relay which automatically places same in circuit upon the failure of the normal current supply.

### New "Dim-Out" Traffic Signal Switch

A new control switch developed by the General Electric Lighting Division permits satisfactory "dim-out" operation of traffic signals during a blackout. It allows illumination of the entire lens instead of a reduced area, making for greater traffic safety, but the light is not discernible from the air.

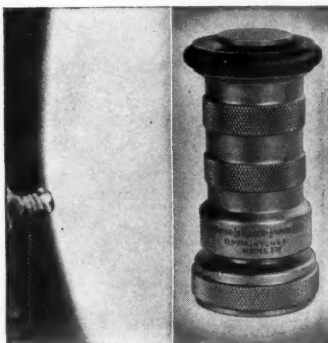
The device can be mounted in the base of the controller cabinet without drilling extra holes in the controller panel or making any wiring changes. It consists of a transformer and a single-pole switch with two positions. With the switch at the "normal" position the signal lamp burns at full brilliancy; at the "blackout" position, voltage is reduced and the

lamp filament just glows. A visor must be provided for each signal lens to screen the upward light and decrease the range of the signal beam.

### All-Spray Nozzle Eliminates Solid Stream

To meet the demands for a variable, all-spray nozzle, without a straight stream, a new water spray nozzle, the "Alfco spray," has just been introduced by the American-LaFrance-Foamite Corp., Elmira, N. Y.

From the shut-off position, a slight turn of the tip immediately gives a cone spray of 40 degrees. Further slight rotation produces increasing cones up to full curtain of 150 degrees, with reversal back to shut-off without



*Alfco spray  
Full Curtain*

*Alfco spray  
Model 10F*

any intervening straight stream. This model finds favor with many public utility companies, as it prevents any possibility of a solid water stream being applied inadvertently on live electric circuits. The varying cones are also excellent for extinguishment of heavy oil fires, and for general cooling purposes.

The nozzle is known as Model 10F. It can be furnished for any 2½" hose thread, also for Underwriters' tip thread, 2" hose thread, or 1½" thread.

The Alfco spray nozzle in the full curtain position provides an effective water screen to protect men and property behind it. It proves more effective on Class A fires (wood, rubbish, textiles, etc.) with spray discharge, than straight bore nozzles, because the finely divided particles of water discharged in the form of a spray will allow absorption of a far greater

**DICKE TOOL CO., Inc.**

**DOWNERS GROVE, ILL.**

*Manufacturers of*

**Pole Line Construction Tools**

***They're Built for Hard Work***

*Mention the FORTNIGHTLY—It identifies your inquiry*



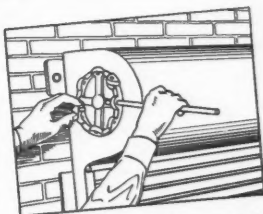


## HOW TO MAKE LONG-LASTING DOORS LAST *STILL LONGER*

Long before high-speed day-and-night war production began to throw severe, extra demands on all industrial equipment, Kinnear Rolling Doors had proved their capacity for long-lasting, low-cost service under hardest use. To make sure that your rolling doors give you *every extra ounce* of time-saving convenience for the duration, *and long after*, we offer the following maintenance suggestion:

### ADJUSTING

See that the spring tension of manually operated doors is adjusted for smoothest, easiest operation. Just remove the pin from the adjustment wheel (see sketch), insert a steel rod in one of the holes, increase the spring tension by turning the wheel clockwise to the required point, and replace the pin. If the tension is too great, turn the wheel in the opposite direction.



*1st* in a series, this ad will be followed by several others suggesting simple steps that will keep Kinnear Rolling Doors operating at peak efficiency through extra years of service.

THE KINNEAR MFG. CO., 2060-80 FIELDS AVENUE, COLUMBUS, OHIO

SAVING WAYS  
IN DOORWAYS

# KINNEAR

ROLLING DOORS

**Equipment Notes (Cont'd)**

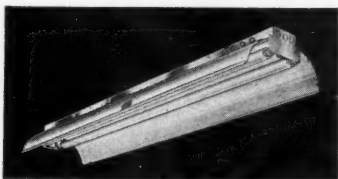
amount of heat than a like quantity of water delivered in a straight stream.

The Alfcospray will cool and protect buildings, tanks and other structures that are menaced by exposure hazard. It will knock down heavy smoke, and dissipate poisonous fumes.

**Guth Porcelain Enameled Industrial Luminaires**

To give defense plants the quality of illumination that is so vital to speed victory production, the Edwin F. Guth Co. of St. Louis has developed a new line of porcelain enamel industrial fluorescent luminaires.

These new luminaires—the XLO Flu-O-Flector, closed-end type and the Victory XLO, an open-end fixture—provide economical in-



*Open End Fixture—Victory XLO*

dustrial illumination and symmetrical light-distribution. The new fixtures (less accessories) have been designed to use a minimum of steel.

The high lighting efficiency of these luminaires is provided by Guth engineered, super-white porcelain enamel reflectors, which are preformed with "V" design to eliminate pocketing of light and have three coats of porcelain enamel to give long durable service.

The XLO Flu-O-Flector and the Victory XLO feature the new Guth "bump-proof socket plates" to protect lampholders from breakage in transit, installation or cleaning. The starters are set in the side of the channel where they are accessible at all times. The reflectors are easily removed for cleaning.

These new Guth luminaires are available for 2 or 3-40 watt lamps and 2-100 watt lamps. They may be mounted individually or in continuous runs with flush-ceiling or suspended mountings.

**Blackout Blinds of Heavy Crepe Fibre**

A new type of blackout blind, which already has been installed in many coastal plants, is announced by Clopay, Cincinnati, Ohio.

This new blind is of the cord type, which raises and lowers easily, and by a practical method of overlapping is adaptable for windows of any size or number. It requires the use of no scarce or more-essential war materials, since it is made of heavy crepe fibre which is not only complete light-proof but will remain so. The blinds are chemically treated to make them incapable of supporting combustion. Unless immersed in liquid, or after long

severe exposure, they will not flame even in direct contact with fire, according to the manufacturer.

Side panels are available for permanent installation at the end of a series of windows, at corners, posts, or other obstructions to insure a complete light seal. The same crepe fibre material is available for outside installation on skylights and for blacking out saw-tooth buildings.

**Catalogs and Bulletins****New Conservation Booklet**

To help America's "War on Waste" Program, Allis-Chalmers Mfg. Co., Milwaukee, has just published a new conservation booklet on office supplies. Entitled "It's the Little Things that Count," the booklet points out the importance today of conserving even the most minor office supplies. Further, it goes into detail on the best methods for prolonging the life of items commonly used in offices. Copies of the booklet are available upon request.

**Causes of Axle Failures Explained**

The Timken-Detroit Axle Company announces that it has made available, as a further addition to its "A.M." (Axle Maintenance) program, a reprint of four "Failure Analysis" articles from past issues of Timken Axle News. These articles analyze the causes of failures of (1) front axle parts, (2) axle shafts, (3) gears and pinions, (4) differentials, and explain how such failures can be avoided. A copy will be mailed without charge upon request to The Timken-Detroit Axle Company, Detroit, Michigan.

**Kotal Booklet**

Kotal Company of New York have issued bulletin No. 9 of their series dealing with the various applications of Kotal to bituminous road and runway construction. This new bulletin describes the operating methods for stabilizing soils with asphalt cutback and Kotal which, it is claimed, permits the use of soils running very high in moisture content and eliminates the need for accurate moisture control.

**New Distribution Transformer Booklet**

A new 24-page booklet on completely self-protecting CSP distribution transformers with Hipersil core, is announced by the Westinghouse Electric & Mfg. Company.

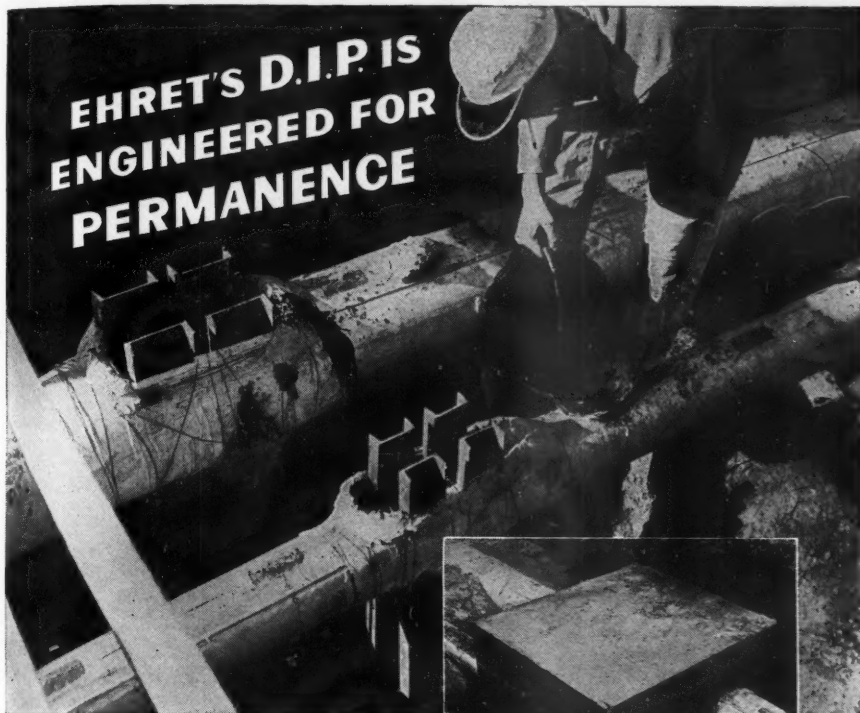
Hipersil is the key to transformer improvement and is applied to transformers to obtain maximum benefit in reduced size and weight, improved regulation, and increased short-time overload capacity. The booklet explains Hipersil and discusses its many advantages in detail. A series of diagrams illustrate the principle of overload and insulation protection.

Full use of transformer capacity is a major advantage of the overload protection built into

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## FOR UNDERGROUND PIPE LINES

**EHRET'S D.I.P. IS  
ENGINEERED FOR  
PERMANENCE**



**T**HE PERMANENT character of the Durant Insulated Piping System is not based solely on the design of the factory-fabricated units. Full consideration has been given to the varied requirements of field assembly. The accompanying installation photographs of a two-pipeline anchor are illustrative of the engineered adaptability of the D.I.P. system.

In the large illustration, the two

insulated joints are being sealed with asphalt a full inch thick. After pouring, the pipes with steel anchoring channels are encased in mass concrete to provide the inexpensive, effective anchor shown above.

[ Send for the Ehret D.I.P. Booklet. It contains full information on this modern system of underground insulated piping. ]

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**Catalogs and Bulletins (Cont'd)**

CSP transformers. The transformers are not only fully protected against damage caused by excessive overload, but the method of protection also permits loading much closer to the actual thermal limit of the windings.

Eleven additional construction features are illustrated and described on pages 14 and 15 and pages 18 and 19 show a series of ten tests which are applied to all CSP transformers before shipment to the job.

A copy of descriptive data 46-100 may be secured from department 7-N-20, Westinghouse Electric & Mfg. Company, East Pittsburgh, Pennsylvania.

**J-M Guide Suggests Ways to Save Through Good Operating Practices**

Designed to help get maximum production from equipment and eliminate unnecessary shut-downs, a new operating practice manual, just published by Johns-Manville, gives many practical suggestions on getting better service from maintenance materials. Called "101 Suggestions for Good Operating Practice," the guide outlines in tabular form many hints on lengthening the life of packings, insulations, roofings, friction materials, and refractory products. Conveniently set up for quick reference, the manual contains a summary of good installation and maintenance practices, providing a handy guide for maintenance engineers.

Copies of the book, Form PP-9A, will be furnished upon request to Johns-Manville, 22 East 40th Street, New York, N. Y.

**Bristol Bulletin On Fully Compensated Recording Thermometer**

The Bristol Company, Waterbury, Conn., has published a new bulletin Number T302, on its line of Fully-Compensated Liquid-Filled Recording Thermometers for temperatures between  $-125^{\circ}\text{F}$ . and  $+400^{\circ}\text{F}$ .

The bulletin gives detailed information concerning construction of the instrument, the various forms in which it is furnished, and also information concerning its application.

**Booklet on Blackouts**

A new 16-page booklet, "Keeping the Blackout Outside Your Home" is now available from the Westinghouse Lamp Division. Written by Miss Myrtle Fahsnyder, director of residential lighting at Westinghouse, the booklet is directed toward the women of the country and is expected to help them select methods and materials to blackout a shelter room.

Copies of booklet A-4103 may be secured

for five cents each from the Westinghouse Advertising Department, Bloomfield, N. J.

**Cold-Cathode Fluorescent Light Standards**

A bulletin dealing with "Cold-Cathode Lamp Type Designations," covering standard tubes as regards straight and curved lamps, positioning of electrodes, length, tube diameter and "white" color, has been issued by the Fluorescent Lighting Association.

This represents still another contribution of the Standards Committee of this Association to the unification of the cold-cathode fluorescent lighting art. Previous bulletins have dealt with fluorescent "white" color standards, length standards for finished straight-length lamps, and other similar details. The Standards Committee will shortly issue its light output and electrical standards of vital significance to those interested in the production and installation of such equipment.

Copies of F.L.A. Standards bulletins may be obtained from the Fluorescent Lighting Association, 509 Fifth Ave., New York City.

**Manufacturers' Notes****Benson Advanced In G-E Transformer Division**

Appointment of C. R. Benson as assistant manager sales, distribution transformers, has been announced by L. R. Brown, manager of the transformer division of General Electric's Central Station Department. Mr. Benson will continue to make his headquarters at the Company's Oakland, California, Works, where he has served as the transformer division's representative since 1939.

**New A. G. A. & M. Officers**

At the annual meeting of the Association of Gas Appliance and Equipment Manufacturers, held in Chicago recently, the following officers were elected to take office on October 1, 1942: President—Colonel W. F. Rockwell, Pittsburgh-Equitable Meter Co., Pittsburgh, Pa.; 1st Vice President—Lyle C. Harvey, The Bryant Heater Co., Cleveland, Ohio; 2nd Vice President—D. P. O'Keefe, O'Keefe and Merritt Co., Los Angeles, Calif.; Treasurer—John Van Norden, American Meter Co., New York City.

**Extension of Standardization Urged**

War has regimented the Great Individualist of the machine age—the steam turbine—into the ranks of the army of mass production goods being produced to smash the Axis, and it can be kept marching profitably for the utility industry when the Victory Parade is over, according to Chester H. Lang, vice president of the General Electric Company.

This possibility for progress was pointed out by Mr. Lang in an address before the annual meeting of the Edison Electric Institute in New York City, June 11th.

**70 MASTER-LIGHTS**

- Electric Portable Hand Lights.
- Repair Car Spot and Searchlights.
- Emergency (Battery) Floodlights.

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179 Sidney St., Cambridge, Mass.  
MASTER-LIGHT MAKERS

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under 125,000 lbs.  
pressure.

This Hydraulic  
press is capable of  
exerting pressures  
up to 600,000 lbs.



ANOTHER *Pennsylvania* INNOVATION  
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SERVICE FOR WAR INDUSTRIES ...

The fundamental principles of building transformers to withstand short circuits are as follows:

- 1 The coils and all insulation must be dried sufficiently to make sure that no shrinkage will take place when the transformer is in operation or is under a short circuit.
- 2 The dry coils must be pre-compressed to such an extent that no further compression can take place under the most severe short circuit. This definitely precludes any possibility of the coil stack moving or distorting under short circuit.
- 3 After drying and pre-compressing, the coils must be treated in such a manner that they are self-supporting and will maintain their pre-compressed and pre-shrunk shape when mounted on the core.
- 4 The final step is to provide sufficiently strong supports at the top and bottom of the group of coils to keep the coils in their pre-compressed shape.

Every Pennsylvania Transformer of the Helical and Pancake type is constructed on these principles.

## A Sure Way of Building Transformers

THE ability of the coil to maintain its shape under the prescribed pressure is your guarantee that the transformer will withstand short circuits.

TO WITHSTAND SHORT CIRCUITS

*Pennsylvania*

TRANSFORMER COMPANY 808 RIDGE AVENUE • N. S. PITTSBURGH, PA.

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**Manufacturers Notes (Cont'd)**

Mr. Lang said that the job now being done in turning out propulsion turbines for the Navy and the merchant fleet has proved the practicability of repetitive manufacture of standardized designs of heavy apparatus. It makes possible lower costs, and fosters rather than restricts the development of more efficient machines because engineering talent can be concentrated on a small number of promising designs.

Production of propulsion turbines resulting from concentrating on a few standard ratings has been astounding to his company, Mr. Lang admitted.

Citing the manner in which the utility industry has furthered the advancement of standards for such things as meters, distribution transformers, and lamps, Mr. Lang stated that there should be no reason for not exploring the possibilities of extending the same standardization to heavy apparatus.

**G-M Truck Awards War Bonds for Production Suggestions**

War production is stimulated and the War Bond drive is aided, at one and the same time, under a unique employee suggestion plan now in effect at General Motors Truck and Coach, Pontiac, Michigan.

Suggestion boxes placed in numerous, convenient locations in the various plants display large placards which urge employees to submit suggestions which will increase war production, save material, improve working conditions or promote greater safety on their own jobs.

Suggestions accepted by the factory committee win War Stamps or Bonds in denominations of from \$7.50 to \$750. The amount of each award is determined, when possible, by the actual saving effected in time or material over a two months' period. In cases where more than one employee contributes to an accepted suggestion, awards are made to each in proportion to his part of the idea.

**H. A. Watson Leaving A.G.A.E.M. Post**

H. A. Watson, Washington representative of the A.G.A.E.M., resigned from the Association July 1st, to become affiliated with the Lincoln Brass Works, Inc. with headquarters at Detroit, Michigan.

Mr. Watson was the Washington representative for the Domestic Gas Range Division of the Association, and prior to his Washington appointment, he represented the CP Gas Range Manufacturers as national sales counselor.

Prior to joining the Association, Mr. Watson was sales promotion manager for the Pennsylvania Power and Light Company, Allentown, Pa.

**I. B. M. Factory Training School**

Classes to accommodate night workers will be a new feature of the International Business Machines Corporation's employee training school at its main plant in Endicott, N. Y., which recently started its summer session with a new all-time high record enrollment of 1,368 students. The usual day sessions will also be held.

Subjects include milling, grinding, screw machine, shop, electric writing machine, electric key punch, and electric accounting machine practice, shop mathematics, first aid, practical psychology, measuring instruments and blueprint reading.

At the recent completion of the factory training school, 800 certificates were awarded to graduates. The school was created, many years ago, by Mr. Thomas J. Watson, president of the company.

**Advertising Awards to Utilities**

Representatives of sixty-one electric, gas, water and transportation utilities from all sections of the United States, received 119 awards for prize-winning advertisements at the Annual Convention of the Public Utilities Advertising Association, an affiliate of the Advertising Federation of America, held in New York City, June 23rd.

A permanent record of the prize winning advertisements was reproduced in a large 68-page booklet and distributed to the membership. These reproductions of utility advertising published from January 1st to December 31, 1941, are interesting specimens of utilities' use of all media of advertising and publicity.

**Bristol Appoints C. A. Mabey Director of Research**

The Bristol Company, Waterbury, Conn., manufacturers of industrial process instruments and automatic control apparatus, has announced the appointment of Charles A. Mabey, director of the research activities of the company.

Mr. Mabey has served as physicist for several years in the Bristol Company. He also has been associated in research work with International Communications Laboratories, Federal Telegraph Company, and with Mathieson Alkali Works, Inc., and is a member of the American Physical Society.

## BLACKOUTS and other WAR MEASURES DEMAND PROTECTIVE LIGHTING

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25,000 Beam C.P.  
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12 A.H.—4 Volt  
Weight 6 lbs.  
1,000 Hours  
Battery Life



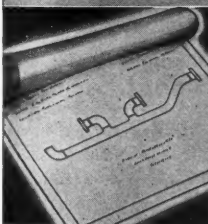
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# More Power to you

Engineering interpretation of complex piping plans.

Top-notch fabricating facilities in conveniently located plants.



Handling every type of pipe fabrication and machining.

Expertly fabricated sub-assemblies arrive ready to drop into place.



Engineers seeking added power for leading utilities, petroleum, chemical, paper companies and allied fields, after repeated experience with Grinnell's engineering and fabrication facilities are "Giving the Plans to Grinnell".

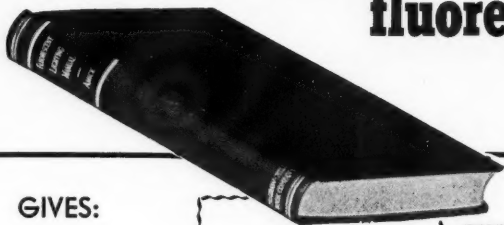
You will find it a *time-saving practice* for any piping system from the simplest to the most complex. Write for Data Book of "Grinnell Prefabricated Piping". Grinnell Company, Inc., Executive Offices, Providence, R. I. Branches in principal cities of the U. S. and Canada.

## GRINNELL

WHENEVER PIPING IS INVOLVED

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# How to design, install, and service fluorescent-lighting systems



## GIVES:

manufacturers  
contractors  
dealers  
installers  
users

the greater understanding of fluorescent lighting that will point the way to more effective installations and maximum customer satisfaction.

## PRACTICAL

A number of actual installations of many types, in factories, drafting rooms, offices, stores, homes, theaters, etc., are pictured in this manual, with brief data, to indicate the scope of fluorescent-lighting application and suggest means of meeting specific illuminating problems.

Make sure you get the extra profits promised by the growing popularity of fluorescent lighting. Here is a practical manual covering the subject in all its aspects, presented so that anyone can understand it, with or without much electrical training. Gives the most authoritative information available on construction and performance of all types of fluorescent lamps, principles and methods of calculating illuminating requirements and designing luminaires and installations, pointers and methods of installing and maintaining fluorescent lamps and of locating and remedying

**JUST  
PUBLISHED!**

their troubles. Includes working data, comparison of cost factors of fluorescent and incandescent lighting, etc.—everything to aid in the designing, selling, installing, and servicing of efficient and satisfactory fluorescent-lighting systems.

# FLUORESCENT LIGHTING MANUAL

By Charles L. Amick

Nela Park Engineering Department  
General Electric Company

312 pages, 6 x 9, 217

illustrations, many tables, \$3.00

**These 10 chapters give you a working knowledge of fluorescent lighting and its application**

1. The Fluorescent Lamp
2. Auxiliary Equipment
3. Operating Characteristics
4. Installation Hints
5. Service Suggestions
6. Luminaire Selection
7. Fluorescent-lighting Design
8. Color Quality
9. Fluorescent Applications
10. Lighting Economics

Besides giving a how-to-do-it cast to all information presented the author emphasizes its meaning from the standpoint of answering doubts or questions regarding the value of using fluorescent lighting. From this book both newcomers in the lighting industry and more experienced readers will get an overall picture of every link in the fluorescent lighting chain and an appreciation of the importance of each, as well as instructions in the methods of design, installation and servicing.

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Under the able management of Mr. A. L. Smyly, pioneer in gas purification and pressure regulation, this organization has continued its leadership in the field, and the fact that Connelly products are standard in hundreds of the leading gas plants of the country is indicative of the service rendered.

• Mr. A. L. Smyly  
President  
Connelly Iron  
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Prepared by a Staff of 102 Specialists

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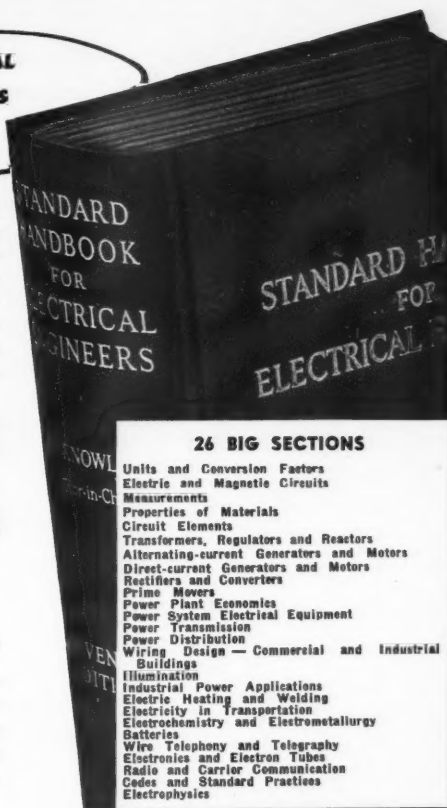
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Previous to revision, a large number of users of past editions were consulted as to what they would like the new edition to be. As a result of their suggestions, this new edition contains such improvements as more emphasis on handy-reference compilation of usable facts, less historical material, and more data about equipment, materials, and practices, more sources of industry standards, codes and specifications, and expanded index, as well as complete revision of subject matter to keep abreast of current practice.

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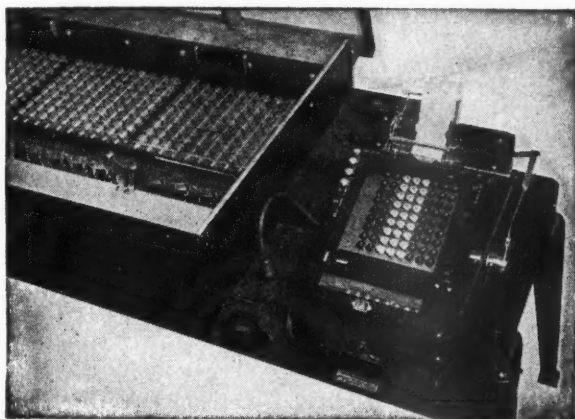
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## THE ONE-STEP METHOD



## OF BILL ANALYSIS

**W**HAT effect is the national defense program having on your bill distribution? Analysis of customer usage data will provide the answer to this important question. In addition to a knowledge of the existing situation, certain trends may be disclosed, a knowledge of which may be of considerable importance to you under circumstances where the picture is rapidly changing

*The One Step Method of Bill Analysis* is ideally suited to meet the needs of this problem. It does away with the necessity for temporarily acquiring, training and supervising a large clerical force. Our experienced staff plus our specially designed Bill Frequency Analyzer machines can turn out the job in a few days and at the cost of only a small fraction of a cent per item.

We will be glad to tell you more in detail about this accurate, rapid and economical method for obtaining a picture of your customer usage situation. Write for a copy of the booklet "*The One Step Method of Bill Analysis*."

### Recording & Statistical Corporation

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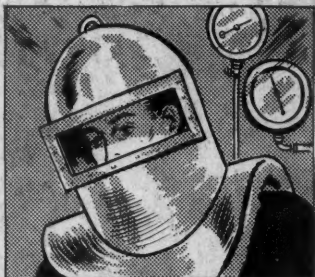
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# Soldiers of Production

America's "soldiers of production," men and women working in the plants of American industry, have their uniforms, too. Some uniforms worn by G-E workers on vital production jobs are shown below.



1. Not a gas mask, but a special nose mask to guard his breathing, is worn by this spray painter at his job in one of the General Electric plants.



2. Like a man from Mars, the "cold room" research man is a strange sight as he tests airplane instruments for high-altitude performance in a G-E laboratory.



3. Frankenstein? No, just another G-E worker. His job is sandblasting big turbine castings for Uncle Sam's ships at one of the General Electric plants.



4. The helmet he wears is to protect him from light! The rays from a welder's arc could cause blindness if he did not wear this strange headgear.

**General Electric believes that its first duty as a good citizen is to be a good soldier.**

*General Electric Company, Schenectady, N. Y.*

959-12-211

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